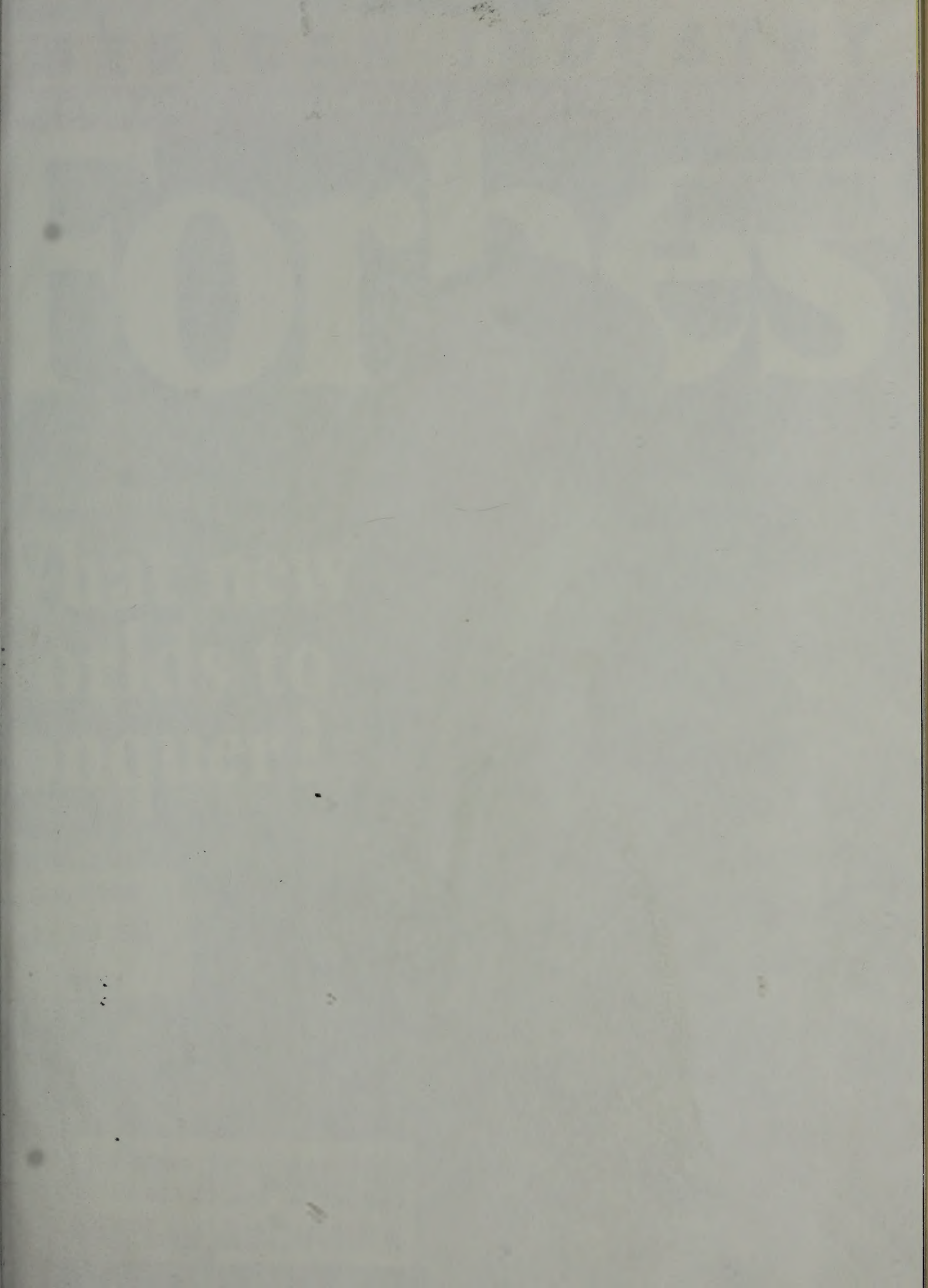


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January 4

AMERICAN INDUSTRY

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ed Turner at 54

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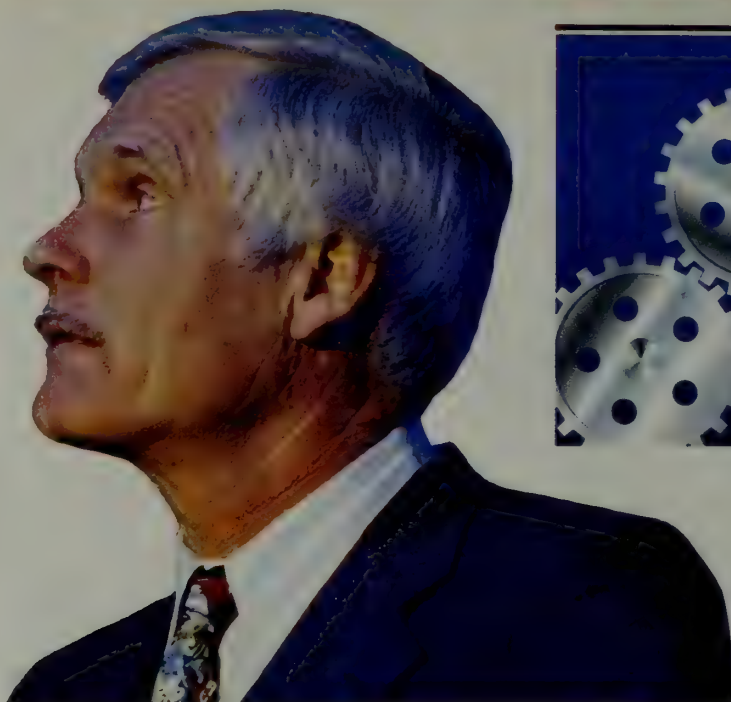
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"I'm still building this company. I haven't done everything I want to do."
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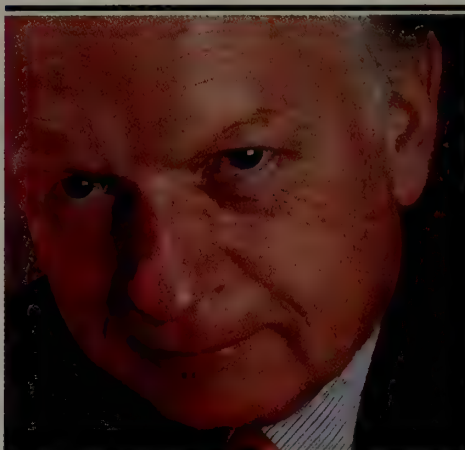


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Why people who aren't going anyw

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Vindicated

AT LEAST TWICE DURING the Eighties, the media thought Ted Turner would surely fail. Who was this bombastic upstart to take on the giants of broadcasting? But in 1982 Howard Rudnitsky authored an article in FORBES entitled "Don't count Ted Turner out." Again in 1988, when Turner was in financial difficulties over the cost of buying the MGM film library, a business magazine ran a cover depicting Turner awash in a sea of red ink. Around that time, Subrata Chakravarty opined in FORBES that far from going under, Turner had cable operators exactly where he wanted them: on his side and working with him.

For our cover story Chakravarty went back to Turner's Atlanta office in November for his fourth interview with the media pioneer. This time he wasn't checking rumors that Turner was in imminent peril of foundering. He is riding high, his CNN network the world's most eagerly sought source of news in troubled times, his purchase of the film library a resounding success. Has success changed Ted Turner?

"On the surface," Chakravarty says, "there's still the same bluster, the same good-ol'-boy bonhomie, the same habit of getting your attention with seemingly outrageous statements. But you sense also that success has strengthened his confidence and his destiny as a man who will help change the world. What he'll do next is anybody's guess—there's a private man lurking quietly behind the noisy actor on the public stage. This I am certain of. It won't be anything small." FORBES' latest look at this phenomenon—"What new worlds to conquer?"—starts on page 82.



Light at the end of the tunnel

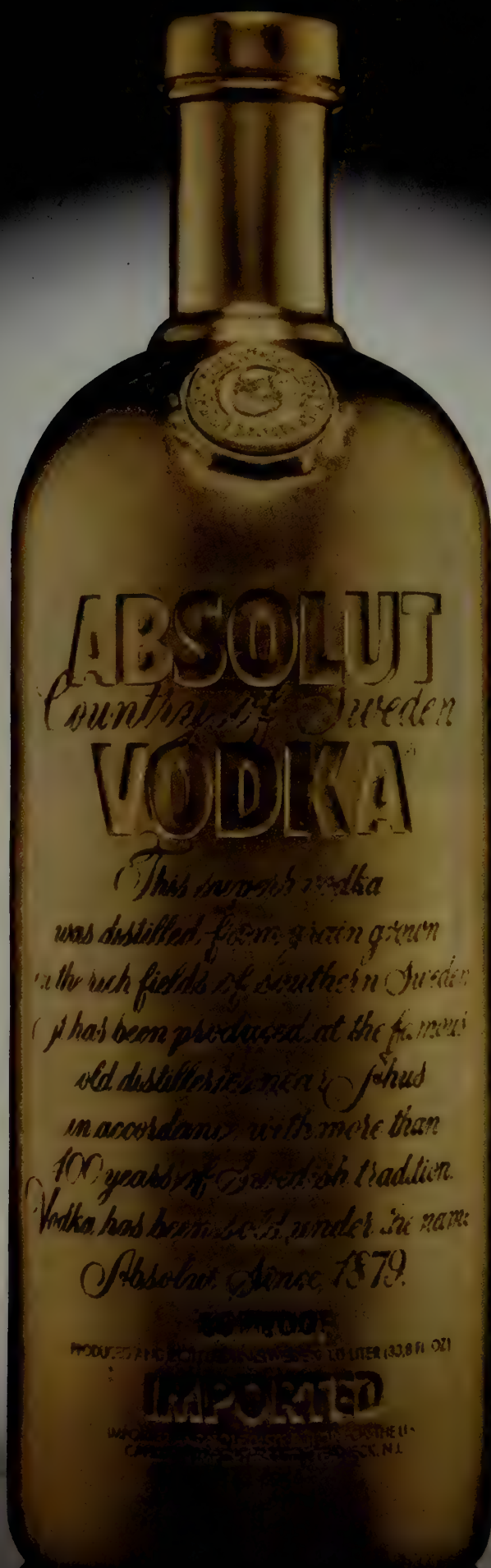
WITH DETAILED FIGURES ON 1,249 U.S. corporations, our 45th Annual Report on American Industry shows clearly the ravages of the recession: The five-year return on equity of all the business sectors surveyed slipped to 12.2% from 13.2% a year ago. But the underlying trends tell a more optimistic tale. In autos the big three picked up market share from foreign makers; chemicals, always a good performer during the early stages of recovery, started to rebound.

As the recovery picks up steam, we look for great things from our 21 nimble companies—outfits we picked on the basis of a variety of performance factors tempered with subjective judgments, based upon interviews and research by FORBES reporters. Stewart Pinkerton supervised the entire effort, ably assisted in the analysis by Steve Kichen and in the number-crunching by Donald Popp, Ann Anderson and their associates in our statistics department.

Taking stock

"NEVER PROMOTE A MAN who hasn't made some bad mistakes, because you would be promoting someone who hasn't done much." With that shrewd quotation, our columnist Kenneth Fisher confesses some of the bad calls he made last year along with a lot of his good calls—confesses and draws lessons from them. Financial columnists David Dreman, Gerald Perritt, Laszlo Birinyi and Michael Gianturco do the same. It's that time of year.

James W. Michaels
Editor



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Early, and then some

PERHAPS the best thing that can be said about our bullish story on IBM a year ago is that it provided some readers with big capital losses to offset gains from our more prescient articles. IBM was trading at around 85 when our story appeared (Dec. 23, 1991). After a brief spurt to 100, it sank to 56 as this issue went to press.

Underlying our optimism was IBM's decision to decentralize by carving itself into 13 autonomous units. This, combined with lower fixed costs from a shrinkage in payroll and a



IBM Chairman
John Akers

**The dividend will
be reviewed in
January.**

consolidation of operations, would enable IBM to enjoy a surge in operating income once sales recovered.

We were early, and then some. We failed to appreciate fully the extent of IBM's excess capacity and its high overhead. On Dec. 15 IBM announced plans to take a \$6 billion charge in 1992's fourth quarter, to further reduce manufacturing capacity and cut 25,000 jobs. Net loss for the year should approach \$5 billion. On the news, IBM dropped to an 11-year low, representing a one-year decline in market value of \$16.5 billion.

"We've disappointed ourselves," said Chairman John Akers in discussing the latest restructuring at a meeting in New York with analysts.

In the past year IBM has been hit by weakening economies in Europe and Japan and other forces beyond management's control. But management also failed to catch up with the market's rapid switch from expensive, proprietary mainframe systems to smaller open systems. From 1986 to 1991 IBM's pretax margins in mainframe systems fell an estimated ten points, to roughly 16%. Akers figures that revenue from IBM's mainframes will be down around 10% from 1991's estimated \$11 billion.

Most troubled companies have some brightish spots; IBM is no exception. In 1992 some 40,000 jobs were cut, so costs are down. Its workstation business is growing at a 50% annual rate; its AS/400 system continues to dominate the midrange category; the \$8 billion systems integration and consulting business is increasing at over 35% a year. And having finally introduced its low-price PS line, the PC business is growing at a record pace—although Akers concedes it won't be profitable until later in 1993.

Unfortunately, these bright spots have been more than overshadowed by problems in the mainframe business and the storage/disk drive unit.

Investors had been hoping that IBM would begin publishing separate accounts for more of the growth units. Why? Because the SEC requires three years of audited financials before a unit can be spun out in a public offering. Long-term IBM investors continue to pray that they will receive shares in several IBM spinoffs.

At his New York meeting in December, Akers played down this hope. And he ignored another Wall Street dream, that IBM might instead create special shares in some of the growing units. These would be similar to General Motors H and E shares, which are pegged to results of the automaker's Hughes Electronics and Electronic Data Systems businesses, respectively. Moreover, Akers said that current earnings expectations put the safety of IBM's \$4.84-a-share dividend in jeopardy. Essentially, all Akers offered was to speed up autonomy for some of the units. For example, its storage business will get its own worldwide sales force to sell equipment to other manufacturers. And IBM's PC company will now control everything from product development to manufacturing and distribution worldwide.

Change is coming at IBM, but at what seems to many investors to be a glacial pace. Those with very long time horizons might consider averaging down. Others might well consider taking their capital loss lumps now.

On the mark

IBM WAS an embarrassment (*see above*), but we don't lose them all. A year and a half ago FORBES took a



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1992 BEN HOGAN UTAH CLASSIC
RIVERSIDE COUNTRY CLUB
PROVO, UTAH
SEPTEMBER 25-27, 1992

DRIVERS		
✓CALLAWAY	57	41.3%
TAYLOR	29	21.0%
FOUNDERS	7	5.0%
MIZUNO	5	3.6%
PING	5	3.6%
DAIWA	4	2.9%
MACGREGOR	4	2.9%
BRIDGESTONE	3	2.1%
All other drivers	21	15.2%
Total drivers	135	

#1 on the LPGA Tour

DARRELL SURVEY

1992 LOS COYOTES LPGA CLASSIC
LOS COYOTES COUNTRY CLUB
BUENA PARK, CALIFORNIA
SEPTEMBER 24-27, 1992

DRIVERS		
✓CALLAWAY	55	37.9%
TAYLOR	41	28.2%
DAIWA	15	10.3%
MIZUNO	5	3.4%
CLEVELAND	4	2.7%
LANGERT	4	2.7%
YONEX	4	2.7%
COBRA	2	1.3%
All other drivers	15	9.6%
Total drivers	145	

#1 on the Senior PGA Tour

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(PGA SENIORS)
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CLEMMONS, NORTH CAROLINA
OCTOBER 2-4, 1992

DRIVERS		
✓CALLAWAY	37	45.1%
TAYLOR	20	24.3%
FOUNDERS	4	4.8%
PROBE	4	4.8%
SPALDING	4	4.8%
BRIDGESTONE	2	2.4%
CUSTOM	2	2.4%
ANVIL	1	1.2%
BULLET	1	1.2%
COBRA	1	1.2%
All other drivers	6	7.3%
Total drivers	82	

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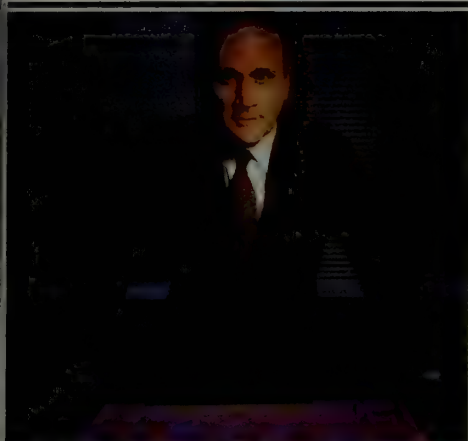
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skeptical look at Intelligent Electronics, Inc., which wholesales computers to a network of about 1,700 dealers (June 10, 1991). The company had doubled its per-share earnings every year over the four years ended Oct. 31, 1990. But our article questioned whether Intelligent was accounting for its acquisitions in such a way as to inflate earnings.



Intelligent Electronics' Richard Sanford
He clashed with the chief financial officer over aggressive accounting.

Another concern was the company's recently announced plan to acquire moneylosing BizMart, a large operator of office supply stores, for \$192 million in cash. Intelligent planned to transform BizMart into a combination office supply and computer retailing superstore, but there was little evidence Intelligent knew much about the rough-and-tumble world of computer retailing.

The concerns proved to be well founded. Early last year Intelligent's chief financial officer, Garland Asher, abruptly resigned after clashing with Chairman Richard Sanford over the company's aggressive accounting policies. BizMart, meanwhile, turned into an albatross that figured heavily in the \$2.4 million loss Intelligent reported in its most recent quarter.

Last month Intelligent announced it plans to sell BizMart to Kmart's OfficeMax unit for \$270 million. The company expects to book a \$12 million gain on the sale before transaction costs. This helped boost the stock recently to about 12, up from a low of 6¼ before the BizMart announcement but still way below its alltime high of 30¾ last February.

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Euro-gossip

CAPITOL HILL'S brassy gossip sheet *Roll Call* is going British. Partly. *The Economist* has acquired a significant minority stake in *Roll Call* from a partnership between Arthur Levitt Jr., former head of the American Stock Exchange, and James and Mary Glassman, editor and publisher, respectively, of *Roll Call*.

David Gordon, chief executive of *The Economist*, says it's "very much a gleam in our eye" to produce a version of *Roll Call* for Brussels, headquarters city of the European Community. "It seems a very good idea where you have a political village whose doings are of interest to more than the politicians," says Gordon. Another possibility: a version of *Roll Call* covering the British Parliament in London.

—HOWARD BANKS

If you gotta go . . .

BAD NEWS for undertakers. In November the Federal Trade Commission reaffirmed its 1984 ruling that people have the right to buy the casket they (or a loved one) want to be buried in from a company other than the funeral home handling the burial. This is bad news for those funeral homes that have refused to handle other vendors' coffins, so as not to lose the markups of up to 900% they can make selling coffins.

The FTC's recent decision resulted from a 1991 complaint filed by a customer of Al Tacker's. Tacker runs Family Heritage Casket Gallery, a cut-rate casket retailer in Memphis (FORBES, May 11, 1992). The customer claimed that a local funeral home refused to accept a casket bought from Tacker, violating the FTC's Funeral Rule. The FTC agreed, and imposed a \$25,000 civil penalty on the home's owner, Memorial Guardian Plans, Inc., a funeral home operation owned by Service Corp. International, the nation's largest undertaker.

Incidentally, Tacker's customized caskets will put a smile on just about anyone's face. For instance, there's a golfer special complete with an embroidered scene of a golf bag and a pin flag of the 18th hole on the lid. The line also includes a casket for truckers with a Mack truck horn screwed on the lid, and running boards mounted



Al Tacker of Memphis' Family Heritage Casket Gallery. **Stiff competition for the funeral homes.**

on the side. For \$995 to \$1,795, Tacker will gladly design whatever you want. And the FTC will see to it that any undertaker will handle the box.

—SETH LUBOVE

Caressa-ed

AEA INVESTORS, the exclusive investment club that boasts Henry Kissinger and ex-General Motors boss Roger Smith among its members, overpaid for tilemaker Dal-Tile just before the construction market began to tank (FORBES, May 11). Now AEA has more egg on its face with Caressa, Inc. A Dania, Fla.-based maker of women's shoes, Caressa filed for Chapter 11 bankruptcy in November. Assets, \$6 million; liabilities, \$48 million.

When AEA paid \$74 million for Caressa in 1984, it was a thriving public company, with about \$75 million in sales, run by the Taicher family. But the two Taichers who managed Caressa, Donald and Robert, left within a year or so. Herbert Leeds, a former Caressa board member and president of Miami's Leeds Business Counseling, Inc., says their absence hurt when times turned tough. As Caressa's shoes were mainly made overseas, a drop in the dollar sharply increased the company's cost of goods. Shrinking margins, a recession and the loss of market share to more aggressive competitors finally combined to do Caressa in.

Another big loser: Morgan Guaranty Trust Co. Caressa owes the bank \$46 million, all of it unsecured.

—CAROL M. CROPPER

Deadhead neckwear

THE HOTTEST NECKTIES this year feature the artwork of Grateful Dead guitarist Jerry Garcia. Among those spotted sporting the colorful neckwear: Vice President-elect Al Gore.

The J. Garcia line was created by Irwin Sternberg. Formerly a top executive at menswear maker Jos. A. Bank Clothiers, Sternberg, 47, now owns New York-based Stonehenge Ltd. He says he plans to use scores of Garcia's paintings to produce limited-edition ties. The first collection—180,000 strong—has sold out. The ties retail at around \$30. Ladies' scarves (at \$65) are already in stores. To come: cummerbunds, bow ties, suspenders, vests and belts.

"You know Ralph Lauren started



Tipper and Al Gore. **Tied in to Jerry Garcia.**

out as just a tiny little tie manufacturer," gushes Sternberg.

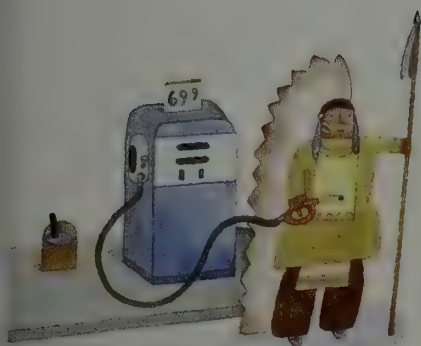
—CHRISTOPHER PALMERI

Happy pumping grounds

NEW YORK STATE reckons it loses around \$25 million a year in taxes to motorists who fill up with tax-free gasoline and diesel fuel sold on the state's Indian reservations. Those pumps, mainly on the lands of the Seneca Nation in upstate New York, are located just off such highways as Interstate 90. It's easy for tractor trailers to tank up at tax-dodge truck-stops on the reservations.

Federal case law says non-Native Americans must pay state taxes on the goods—from gasoline to cigarettes—they buy on reservations. But states have no jurisdiction to collect those taxes on the reservations. Nor can sovereign tribal governments be forced to collect state taxes.

One solution New York State has proposed is that the Senecas impose their own taxes at the pump, making reservation fuel less of a bargain. That would generate much-needed revenue for the tribal government. But



collecting those taxes might still be tough. "As far as the Indian gas station owners are concerned, paying a tax to the Seneca Nation is almost as bad as paying a tax to New York State," says James Wetzler, tax commissioner of New York State.

More bad news: On Nov. 3 the Seneca Nation elected a service station owner, Barry Snyder, as their president. New York claims that Snyder, 52, owes the state \$6.3 million in taxes.

—R. LEE SULLIVAN

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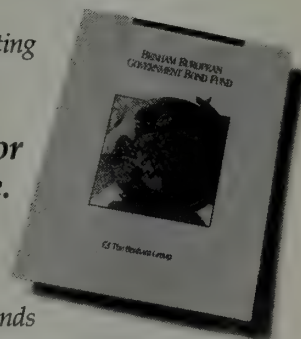
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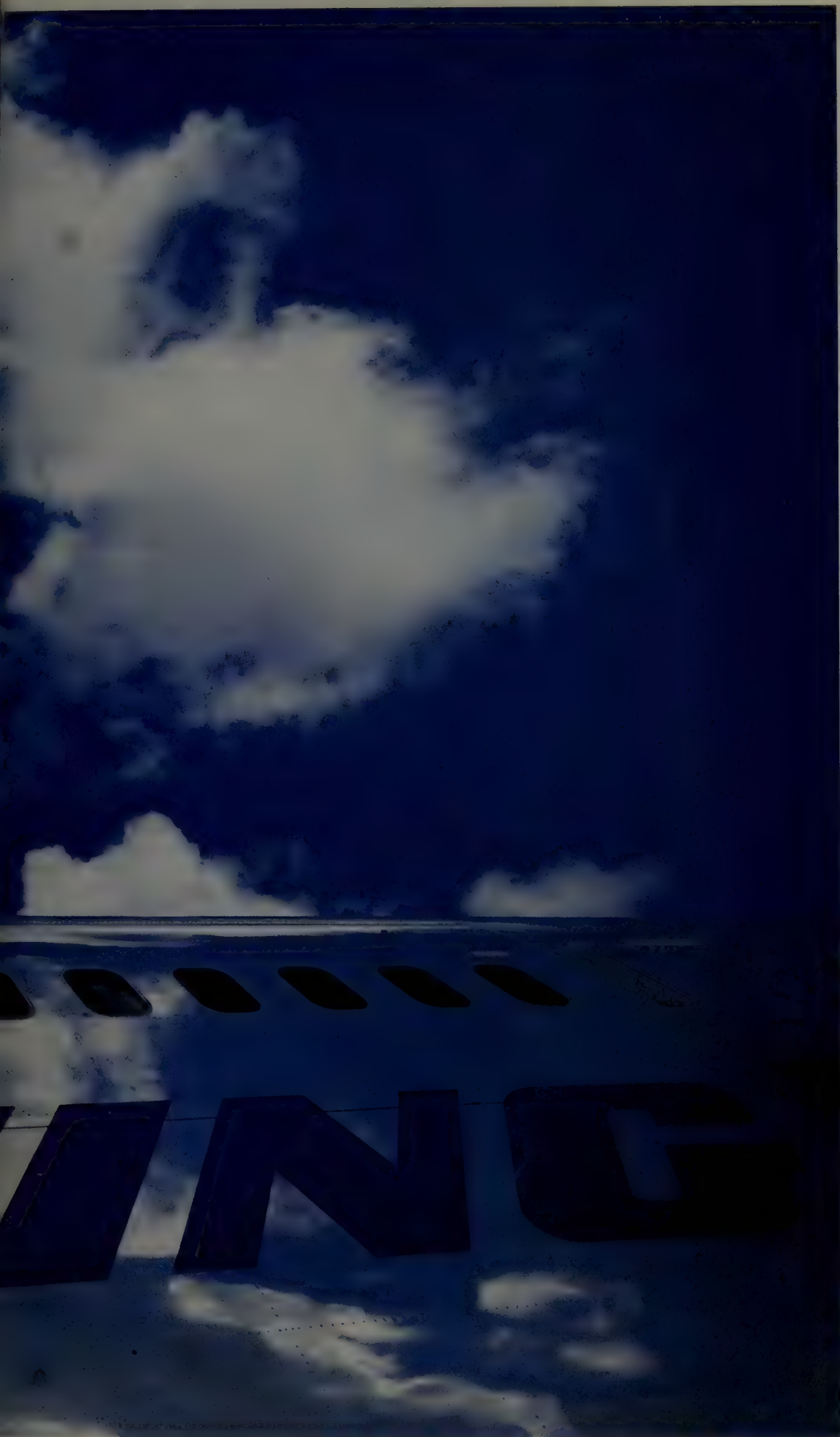
Yield and share price will vary. Shares, when redeemed, may be worth more or less than their original cost. The investment guide includes a prospectus with more complete information about management fees and expenses. Read it carefully before investing or sending money. Fund shares are not guaranteed.

*Source: J.P. Morgan Securities Inc.

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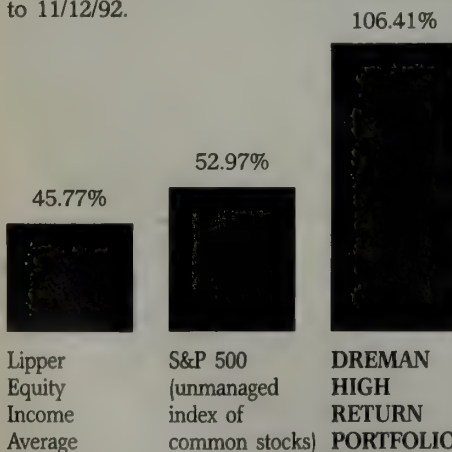
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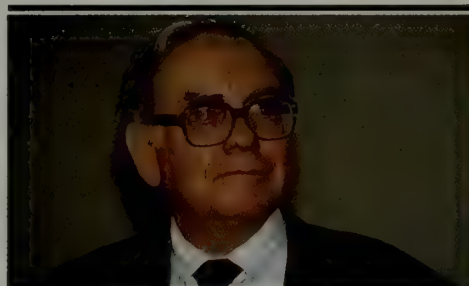
Productive billionaires

SIR: Mr. Don Hewitt, the executive producer of CBS' *60 Minutes*, is confused. Such wealth is never idle, nor can one spend even \$1 billion on a foolish lifestyle. Almost always, it is managed with great skill (*Readers Say*, Dec. 7, 1992). The wealth of the Pritzkers, Basses, Gateses, Buffetts, Tisches and others goes to finance new companies developing new products and new technologies (while providing jobs). It buys bonds to finance highway improvements and build schools. It is contributed to charitable enterprises. I prefer the prudent management of Bill Gates, Sid Bass, Warren Buffett or Laurence Tisch to a U.S. Congress incapable of prudently managing its own bank, checking accounts, post office or, more to the point, the U.S. budget.

—STEVEN L. PEASE
Sonoma, Calif.

SIR: What if Mr. William Paley had that idea mandated upon him years ago? Where would *60 Minutes* be?

—MONTE C. BYRD
Houston, Tex.



Billionaires
Warren Buffett
and Bill Gates

Money well spent.



Lisa Quinones/Black Star

Lisa Quinones/Black Star

Start programs. I say the country will be better off having billionaires determine how their wealth is invested.

—GREGORY LYLE
President
Gregory Lyle & Co.
Clinton, Wash.

Investment tax credit

SIR: While the investment tax credit will spur business investment, bickering over details such as what business assets should be favored will only delay and complicate the ITC (*What's Ahead for Business*, Dec. 7, 1992). We need a simple, easy to apply incentive enacted as quickly as possible.

—EDWARD W. STIMPSON
President
General Aviation
Manufacturers Association
Washington, D.C.

Swapping policyholders

SIR: An alternative to what to do with a policy when the director quits before it is fully paid up would be to purchase the contract through a company that has a Right of Exchange Rider ("Pro bono policies," Dec. 7, 1992). This permits (with evidence of good health) a substitution of the insured, which means startup costs would be avoided.

—RAYMOND J. GIANANTONI
Assistant General Agent
MassMutual
Springfield, Mass.

Counting his accomplishments

SIR: The basic premise of the article on Paramount Communications is that during the nearly ten-year stewardship of Martin Davis, "he has accomplished remarkably little" ("Break it up?" Dec. 7, 1992). This is simply untrue.

Consider the accomplishments:

Divestiture of nonentertainment, nonpublishing assets with combined revenues of close to \$6 billion.

Simplification and strengthening of the balance sheet and reduction of debt.

The company's stock price has soared some 500% from \$9 a share (giving effect to a 2-for-1 stock split in 1988) to a current price of approxi-

SIR: Ross Perot has chosen to put most of his wealth into municipal bonds, helping to finance the infrastructure of our country. Bill Gates retains most of his wealth in Microsoft, investing in the creation of evermore productive software, and has donated millions to finance unrelated research at various universities.

Hewitt believes the billions would be better spent on job training or Head

nately \$43 a share.

An aggressive acquisition program, particularly in publishing, where the division grew from a \$275 million trade publisher into a \$1.8 billion publishing powerhouse.

While it is true that many of the acquisitions were made prior to 1989, it is also true that as a result of the economic environment from August 1989 until early 1991, merger and acquisition activity, especially in the media field, virtually ground to a halt.

—LESTER POLLACK

*Chairman, Audit Committee
On behalf of the Board of Directors
of Paramount Communications
New York, N.Y.*

More dividends

SIR: AES's dividend was \$0.31, not \$0.11 ("Speculative utilities," Oct. 26, 1992). The first half dividend for fiscal 1991 was \$0.20, and we have recently declared a \$0.40 dividend for the second half, a clear indication that dividend payouts are significant and growing.

—ROGER W. SANT

*Chairman of the Board
and Chief Executive Officer
The AES Corp.
Arlington, Va.*

No loophole

SIR: Re Matthew Winkler's advice ("Time to get on board," Oct. 12, 1992) to "refinance your home ... borrow more than you need ... and invest the proceeds in tax-exempt bonds." Home mortgage interest is not deductible if loan proceeds are invested in tax-free bonds.

—RIC EDELMAN

*President
Edelman Financial Services
Fairfax, Va.*

400 largest private companies

SIR: We reported last year's revenues as \$505 million and our number of employees is 4,000 (Dec. 7, 1992).

—CLAIRE M. D'AMOUR

*Vice President
Corporate Affairs
Big Y Foods, Inc.
Springfield, Mass.*

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Angelo R. Mozilo, CEO, CMB

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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*



HOW FAST THE ECONOMY GROWS THIS YEAR

will depend on the upcoming tax bill. If the package includes meaningful cuts in the capital gains levy, activity will pick up sharply before year's end. If the legislation is neutral or punitive, the economy will continue at a so-so 3% to 4% pace.

The ingredients are there for a boom. New technologies are rapidly changing the way we do business as well as creating numerous new businesses. The microchip/fiber-optics age will be as profound in our time as the Industrial Revolution was in the last century. But onerous taxation and regulation will retard the process.

The stock market's performance will be even more intimately tied to tax changes. Small-company equities have already done well in anticipation of favorable capital gains tax changes.

Companies have cut costs dramatically. Blue-chip bottom lines will expand impressively. Capital spending will grow heartily, investment tax credit or not.

Long-term interest rates will continue down as long as Clinton forswears bashing the Federal Reserve. So, surprisingly, will short-term interest rates. The Fed would do itself and the nation an enormous service if, uncharacteristically, it stated that the price of gold is a key determinant in monetary policy.

Despite all the hoopla, health care changes will be slow in coming—a good thing considering the almost universally pernicious proposals now being seriously discussed.

Clinton wants to be a domestic president, but like Wilson and FDR before him, he will find foreign policy taking up an inordinate amount of his time and energy.

SOMALIA—SYMPTOM OF THE NEW WORLD DISORDER

SOMALIA IS AN EXAMPLE of the challenges we face in the post-Cold War world. When Soviets were the adversaries, we knew how to react—find some way to counter their moves. In a place like Somalia, we would be supporting a faction; they, another. A total breakdown of authority would have been improbable. But the world is no longer so tidy geopolitically. Clinton will have ample opportunity to formulate novel foreign policy doctrines in the face of new, turbulent circumstances:

Our intervention in Somalia underscores how the information age is changing American diplomacy. We never would have gone in if not for television. Seeing widespread famine provokes infinitely more emotion than reading about it. We witnessed the same phenomenon in Tiananmen Square. China's reputation still suffers from that massacre of some 4,000 people. Yet Beijing's Red Regime has executed literally millions of people since taking power in 1949. But no pictures, no world reaction. And it was information from the West, particularly broadcasts by Radio Free Europe and Radio Liberty, that undermined Soviet communism.

Somalia underlines another global fact of life: Only America can create conditions for a kinder, gentler world. If we hadn't taken the lead in Somalia, nothing would

have happened to stop the starvation. Other countries have no inclination to right wrongs.

The need for American action can also be seen in Bosnia. European nations have been impotent in coping with the crisis. Unless we take the initiative, Serbian aggression will go unpunished and could well trigger a wider war. Unlike Somalia, our interests in Bosnia are manifest. Yet we don't act.

Margaret Thatcher and others are right that without a strong U.S. presence in Europe and Asia, traditional antipathies there will fester and eventually explode, with murderous consequences for us. That truth is becoming self-evident in Europe. It will also become more apparent in the years ahead in Asia. China is aggressively expanding its military. Not far down the road, moreover, it could descend into one of its periodic bouts

of internal disorder. Russia still has formidable forces in the Far East. Japan, at some point, will respond in kind if we continue to diminish our presence.

The new world disorder will soon include nuclear and missile proliferation. Numerous nations not so many years from now will be able to send deadly rockets to our shores. Countries are fracturing, creating fresh opportunities for ethnic strife. And there is always

Christopher MorsBlack Star



Sarajevo: We don't intervene even though the war could spread widely.

Iran, which is on a major military buildup and has launched significant diplomatic offensives in many countries, including the republics that have emerged from former Soviet Central Asia.

The lack of an adversary has affected our response to Russia. If China were a well-armed enemy, we would not have been lackadaisical about the Kremlin's plight for fear it might ally with Beijing. The Marshall Plan was motivated

by fear of communism as much as by humanitarianism.

Our military today understandably wants its engagements to be short. But Iraq demonstrates that too quick an exit can also create serious political problems.

Not since the late 1940s has the world and our foreign policy been so fluid. Can Clinton respond as imaginatively and effectively as Truman did? The shape of the world rides on the answer.

SHOWING CHINA THE WAY

HONG KONG'S NEW British Governor has aroused China's communist rulers. He proposes by 1995 to effectively increase the directly elected seats in the Hong Kong legislature from one-third of that body to two-thirds.

Beijing thought it had an understanding that a majority of the seats would be appointed by pliant groups.

Governor Chris Patten's sudden moves raise the painful question of why these democratic steps weren't taken years ago when British influence was greater and China would have had more time to adjust to such heretical steps.

But better late than never. While Beijing is still boiling mad—threatening to tear up any new system when it takes over in

1997—some deal will likely be cut if Patten does not overplay his hand and if China's economic kingpin, Zhu Rongji, applies his trouble-shooting talents to smoothing over the row, which is likely.

Hong Kong could thus be both a model and a prod politically, just as it has been economically. China's economy, particularly in the provinces neighboring Hong Kong, is booming thanks to the colony's investment and its illustrative free-enterprise system. Tensions will increase between old-guardists and those who want more economic liberties. With the examples of Hong Kong and Taiwan and Singapore, a growing number of mainlanders will want to see economic freedoms lead to more political freedoms.



Governor Chris Patten

MAYBE THIS TIME THEY'LL GET IT RIGHT

THE SUPREME COURT has agreed to decide a case on the increasingly critical issue of excessive jury awards. Our justices have previously refused to put any limits on them.

Outsized awards violate both the Eighth Amendment's ban of excessive fines and the Fourteenth's guaranty of due process, as there are no standards by which they

are levied. In the case the High Court will consider, actual damages were only \$19,000, while punitive damages were \$10 million. Such amounts are based on emotion, not fact.

High Court to Take Up Case on Large Punitive Awards by Juries

—The New York Times

Until the early 1960s, punitive damages were rare, given only in civil cases where motives bordered on the criminal. Today, these payouts have become routine.

IF YOU GO TO RIO DE JANEIRO

be sure not to stay at the highly touted Rio Palace Hotel.

A group of us from FORBES were recently guests there. The hotel upgraded my room—and then charged me five times the confirmed rate. Worse yet, our cocktail recep-

tion cost almost three times the one we gave in São Paulo. Why? The hotel neglected to mention that its price per person, which was in line with those of other cities, was only an hourly rate.

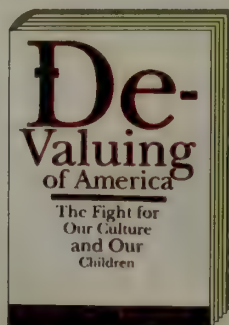
BRAVE BRAIN

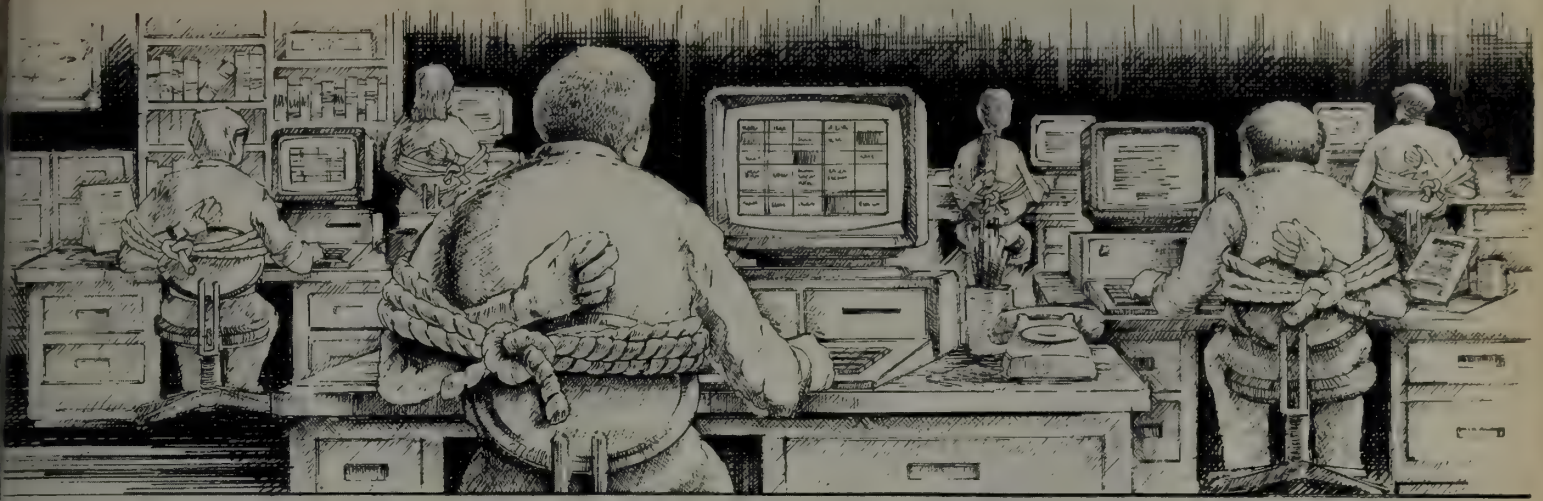
The De-Valuing of America—by William J. Bennett (Summit Books, \$20). A superb discussion of culture, education, race, religion, drugs. What brings Bennett's points to life are his abundant anecdotes. The author was no desk-bound bureaucrat during his decade in Washington as National Endowment for the Humanities head, Education Secretary and drug czar. One example: his account of Charleston Police Chief Greenberg's successful war on drugs, which blows away all the head-shaking pessimism over our supposed inability to deal with this plague. His stories about successful teachers and principals he encountered are inspiring. All incoming Clintonites should read the writer's six "Washington myths," particularly the first

one, "Public policy issues are hopelessly complex."

Bennett is that rarity in public life—a fearless, fighting intellectual of integrity uncowed by controversy.

Excerpt: *Talking to some police chiefs was like talking to some of the school superintendents I had encountered while Secretary of Education. They spoke of deep social problems, alienation and illiteracy. But they had little sense of how to provide solutions. They didn't want the responsibility for solving the drug problem. Something is wrong when law-enforcement officers start sounding like sociologists and when their leaders want to spend more time psychoanalyzing a drug dealer's behavior than getting their men to arrest him. The most immediate need is not to teach fire prevention, but to put out the fire.*





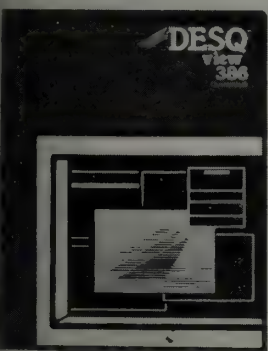
Are your PCs holding you back?

Surprisingly, over 80% of PCs in American industry are operating at a fraction of their capacity. They're performing just one task at a time; requiring users to work in an unnatural fashion.

And that means the workers using them are operating less than their peak productivity. These days, American business can't afford that.

While other software companies have decided the solution is to change the way 60 million users work, we started from the premise that a 'productivity increase' that required a major investment of time and money was an oxymoron.

For instance, DESQview, our multitasking windowing environment allows users to run several of their favorite



DESQview multitasks and windows programs on the PC: graphics or text, DOS or Microsoft Windows—side-by-side.

minutes a year would a user need to save to pay back an investment of \$1,500 - \$2,200 in new hardware and software?



Our motto.

programs side-by-side, saving time and making the process of working more natural and fluid. Microsoft Windows does many of the same things, but it does so by putting an enormous burden on the computer itself. Many users are forced to replace most of their hardware and much of their software just to use it. That's clearly counter-productive. Seriously. How many

DESQview sells for under \$200 and pays for itself quickly.

Memory limits are another weakness in many PCs. QEMM-386 makes virtually all the computer's memory available to productivity programs while allowing room for network software, TSRs and new utilities like CD-ROM drivers. Microsoft DOS 5 does some of the same things, but less effectively.

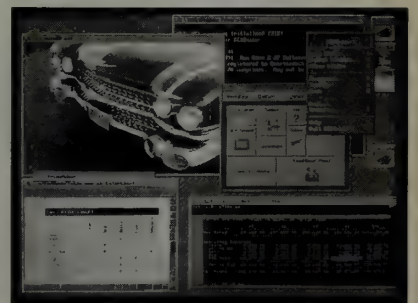
Our QEMM works with and improves MS-Windows and every DOS from 3.0 to 5.0. It's the best selling software utility in the world.

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QEMM has won more awards than all other memory managers put together.



DESQview/X is a new breakthrough that allows computers throughout your enterprise to work together smoothly.

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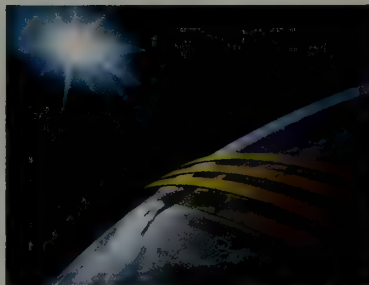
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Other Comments

Flip Side of the Coin

BUSINESS IS MORE than making money; losing less money is sometimes important, too.

—*Every Street Is Paved with Gold,*

by KIM WOO-CHOONG,
founder and chairman, Daewoo

It Takes More Than Skill

MR. YELTSIN has proved a skillful politician and formidable statesman. [But] the Yeltsin government will not survive unless it receives major economic assistance:

1. The \$80 billion debt Yeltsin inherited from Gorbachev must be rescheduled for 15 years.

2. There must be a substantial bridge loan from Western governments to help the Russian people through a cruel winter and to assist the transition to a free-market economy.

3. Russia needs massive investment from the private sector in the West. If Russia adopts the same legal guarantees for private property as we have in the West, it has been estimated that \$300 billion would be invested over the next five years.

If Mr. Yeltsin survives and freedom and democracy succeed, we will live in a safer and richer world. A vigor-

ous free enterprise economy in Russia will mean billions of dollars in trade and hundreds of thousands of jobs for Americans. The success of democracy and free markets in Russia will be an example for China and other dictatorships to follow.

—Richard Nixon, *New York Times*

At some point, people have to step up and do something for someone else. If people give a little emotionally, the quality of living in our towns is going to be better, the quality of living in our state is going to be better and the quality of living in our country is going to be better.

—STAN JOHNSON, vice chairman,
Johnson Gage Co.,
The Hartford Courant

Placating Helps Nothing

CHINA HAS been threatening to ignore the 1984 Sino-British Joint Declaration that sets out Hong Kong's 1997 hand-over to China [and] announced that after repossessing Hong Kong, it may not honor leases, contracts and agreements signed by the current

British administration of Hong Kong.

The question for Hong Kong is whether to kowtow to China and resume the absurd pretense that all will be well under China. It makes more sense to equip Hong Kong with some modicum of democratic self-rule than to hand it over uninsulated against China's dictates.

Governor Chris Patten, with his plan for democratic reform, deserves the continuing encouragement of both his British colleagues and the rest of the democratic world.

—*Wall Street Journal* editorial

Get Serious about Trade

AMERICA HAS global competitors who have taken the time to understand the new global economy, focused on developing an educated work force and expanding markets in their own economy, provided their sunrise industries with reduced capital costs, and learned to simultaneously cooperate and compete. Clearly, with the world's largest economy with a diversified work force, we should demand no less of ourselves.

—JAMES C. MORGAN, Chairman & CEO, Applied Materials, Inc.,
in remarks to the Congressional Competitiveness Caucus

Mind over Matter

AFTER THREE weeks in the weighty Mylar shadow of Madonna's *Sex*, radio's Rush Limbaugh is back at No. 1 on the *New York Times* best-seller list. Limbaugh's *The Way Things Ought To Be*, a diatribe against all people, places and things liberal, had come down a notch after the *Erotica* goddess landed in stores with her media-hyped assemblage of pop-tart fantasies. What Rush's return seems to indicate is that America prefers its bombast packaged in the form of a paunchy, suit-clad politico rather than a raunchy unclothed chanteuse. Or it could mean that readers have found Limbaugh's provocative use of the written word more exciting than a bunch of racy pictures.

—GINIA BELLAFANTE, *Time*

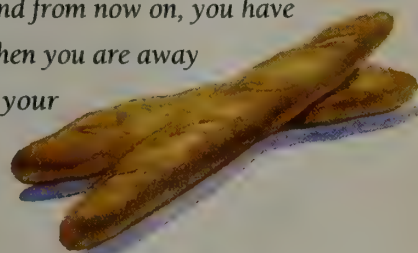


"I've been meaning to ask you, Dad. Where's the smart money?"

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baguettes. Although you can't pinpoint it, you
welcome it wholeheartedly. As we do you with
a "bonjour." You have found a new way to do
business traveling. And from now on, you have
found a new home when you are away
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Borrow To Spend To

After the excesses of the past decade, encouraging new trends have emerged. Companies in a broad spectrum of industries are borrowing to refinance and restructure debt, and investing in the training and technology needed to increase productivity.

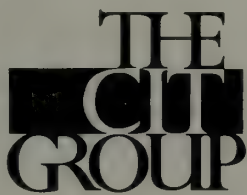
These actions may not bring our economy roaring back as quickly as profligate spending. They will, however, lead us toward a solid and sustainable recovery.

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Dr. Karen Strauss, environmental engineer, with son Luke and daughter Jenny

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An environmental engineer and doctor of public health, Karen Strauss affirms what thousands of other professionals in her field know about nuclear energy: It helps protect our environment because it doesn't pollute the air.

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for healthy economic growth," Dr. Strauss says. "No single energy source is the whole solution. But nuclear energy is part of the solution. The U.S. already has 110 nuclear plants producing clean electricity with no air pollution. That's a precious environmental advantage for us and, even more, for future generations."

The more you know about energy choices, the more you can participate in those choices. For a free booklet on nuclear energy (including the national plan for safe nuclear waste disposal), just write to the U.S. Council for Energy Awareness, P.O. Box 66080, Department of Energy, Washington, D.C. 20035.

NUCLEAR ENERGY MEANS CLEANER AIR.

Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*



A NEW BOOK FOR ALL SEASONS

THE ADVENT of both a new year and a new Administration underlines the importance and value of a new book—particularly for those who have decided to do their own thinking rather than accept and repeat what they hear and read every morning and night on television and in most of our newspapers.

The book, *An Illustrated Guide to the American Economy* by Herbert Stein and Murray Foss (AEI Press, publisher for the American Enterprise Institute, Washington, D.C., \$14.95), is unreservedly recommended for securing an understanding of what is fact and what is myth about our economy. All who await the approach of the new Administration—whether with apprehension, bated breath, or both—can hope that before the “bold new initiatives” we were promised during the campaign are offered, the new economic team will be issued copies to study with care.

This is not a Republican or a Democratic book; rather, it is a book about the 100 key issues that anyone working with or trying to understand the American economy must deal with every day.

At the outset, for example, we learn that our total output—measured by the real gross national product, which is the sum of the total output of goods and services assessed at a given year's prices—has increased enormously, particularly in the last 30 years. In fact, our total output per person is at least a fourth higher than Japan's and a third higher than Germany's. The authors cautiously advise us that we should not automatically assume that this makes our people better off; that depends on what we do with the income. At least this increased output has greatly increased our choices and given us favorable conditions for increased happiness. That is the most any economy can do.

■ **Health.** For those about to design a new health plan, it is useful to know that the health care industry has grown about 50% faster than the economy. Prices, which had increased more than 5% a year from 1947 to 1980, suddenly rose more than 8% a year from 1980 to 1989. Prices and employment rose, but output did not keep

pace. Result: a fall in productivity.

■ **Foreign aid.** For those demanding deep cuts in foreign aid, it may be instructive to note that foreign aid has already fallen from 15% of federal expenditures in 1950 to only about 1% in 1990.

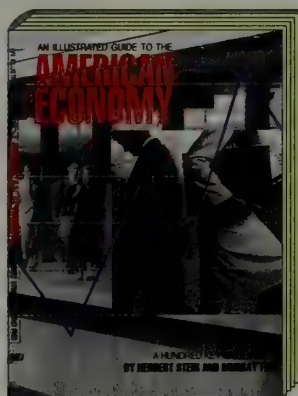
■ **Poverty.** There are ten different definitions of poverty. If we count all cash income plus the market value of all major government-furnished benefits, approximately 8% of the U.S. population is below the official standard. But if you consider just the cash income of the poor that is below “estimated current requirements for minimum food needs,” as defined by the government, then about 25% of the population is below the poverty line.

■ **Defense.** Defense budget cutters should be aware that defense spending is now less than 6% of the GNP. Present plans (of the outgoing Administration) call for defense expenditures to decline to less than 4% of the GNP by 1996, and the new Administration has campaigned for much deeper cuts than that. But nothing in any economics book can tell us when we will need great military strength. However, looking

about the world one can easily conclude that not all risks and threats have disappeared. It is also easy to see that it costs more to regain lost defense capability than it does simply to maintain by small increases each year the strength we now have.

Other facts in the book that the new Administration might want to keep in mind: A trade deficit does not cause, in total, a loss of employment in the U.S.; there is no reason for concern that we are “now a debtor nation”; the increased educational attainment of our work force has been a big factor in our growth in output; and a fixed rule is that the more education a person has, the higher will be his or her income.

All of this and much more is presented in clear, non-technical prose and illustrated with splendid graphics. Even if disagreements on policy still exist, at least those disagreements will be based on factual foundations once the disputants have read this exceptionally timely and valuable manual.



This year we benchmark

Since its introduction, the Honda Accord has impressed both the automotive critics and enthusiasts. For three years in a row, car buyers have made it America's best-seller.*

No wonder it is the example for others to follow. So with a resumé like this, we decided to follow up with a different kind of Accord.

This is the new Accord SE Sedan. It has a special interior. A special sound system. A special set of alloy wheels. In other words, a remarkable car made even more so.

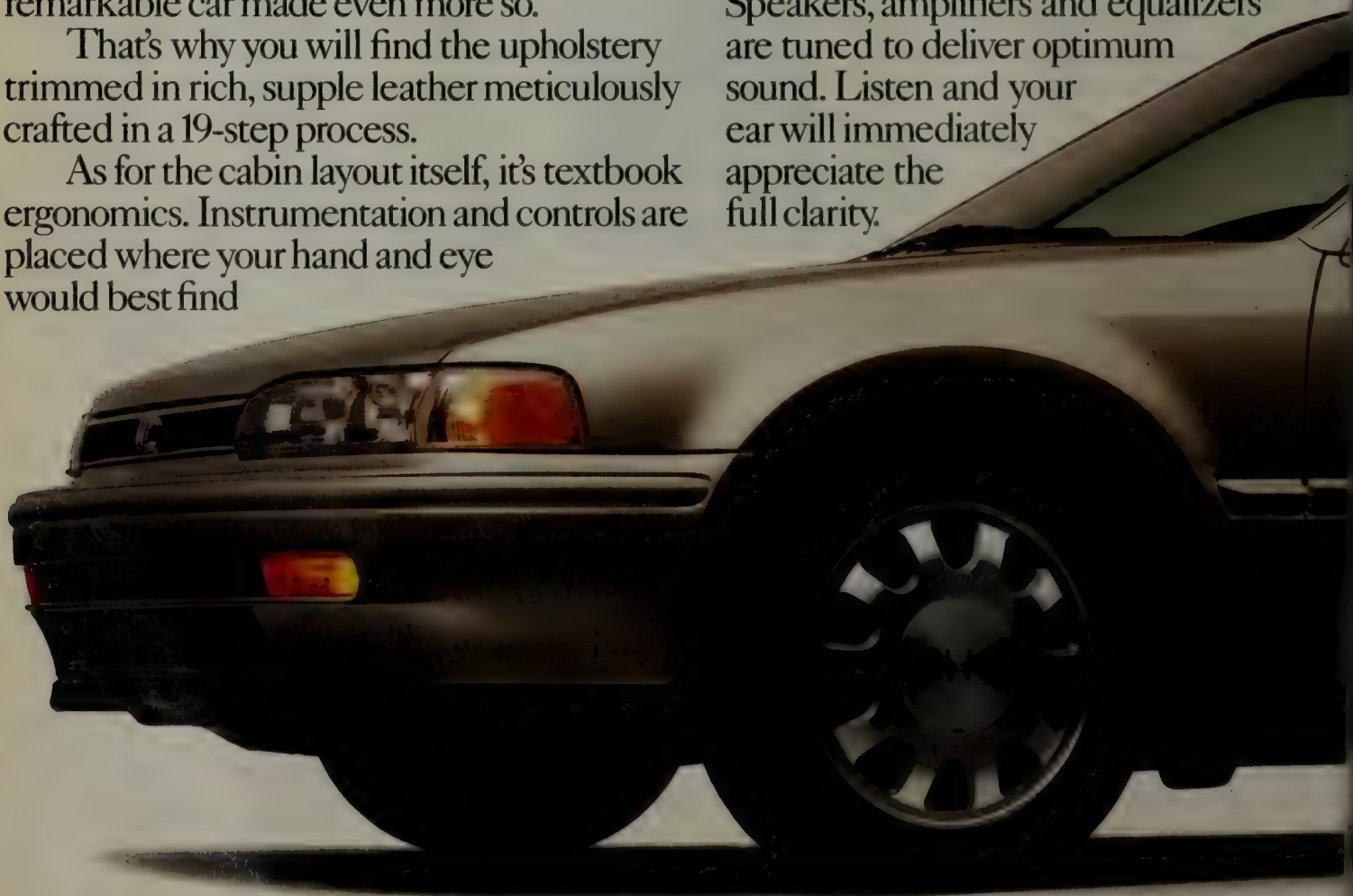
That's why you will find the upholstery trimmed in rich, supple leather meticulously crafted in a 19-step process.

As for the cabin layout itself, it's textbook ergonomics. Instrumentation and controls are placed where your hand and eye would best find

them. Contoured seats offer the right balance of support and comfort.

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Engineers even took into consideration the reflective qualities of the leather surface. Speakers, amplifiers and equalizers are tuned to deliver optimum sound. Listen and your ear will immediately appreciate the full clarity.



covered the in leather.

As you would expect, fit and finish of the Accord SE Sedan are exemplary. Seams line up straight. Body panels meet together with unbelievable precision.

Equal attention to detail can be found in the engineering of this car. The design of the multi-valve engine minimizes vibration. You can hear what a difference this makes. The advanced four-wheel double wishbone

suspension smoothly absorbs mile after mile of curves, hills and straightaways.

For your reassurance, there are anti-lock brakes and two airbags. One on the driver's side. The other on the passenger's. As always, please don't forget to fasten your seat belt.

And if things like value, reliability and quality weren't mentioned earlier, don't worry. The new Accord SE Sedan has those easily covered. After all, it's a Honda.

The Accord SE Sedan



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Exports are creating better-paying jobs

IT'S NATURAL THAT IBM's latest cut of 25,000 jobs, 8.3% of the company's total work force, and major job cuts by such companies as Westinghouse (23,000 jobs) and UTC's Pratt & Whitney jet engine division (4,800 jobs) should dominate the headlines. But there is another side to this restructuring that is worth keeping in mind, and it certainly didn't get much attention at the Clinton economic summit in Little Rock.

The restructuring that is still under way in U.S. industry continues to yield strong productivity growth. What's good for the economy is good for the job market. Nationwide, payrolls are now growing at a rate of 400,000 or so per month. That's more people finding work than

continued throughout 1992, though maybe at a slower pace. The growth in exports has slowed, as a result of the recession in Europe and Japan. But at \$38.2 billion in September, merchandise exports were up by nearly 7% to an alltime record level.

What's less obvious is that as many as 3 million of the service sector's jobs in 1990 were dependent on merchandise goods exports. In addition, a large number of service sector jobs are dependent on direct exports of such services as banking, insurance, medical services and the like, though the government has not calculated how many. These direct service exports (\$164 billion in 1991) are rising strongly and now stand at 40% of merchandise goods.

The best feature of all this, and perhaps the most surprising, is that export-related jobs pay better than business as a whole (*see chart*). This applies to export-related jobs in both manufacturing and services. Analysis by the chief economist at the Office of the U.S. Trade Representative shows that in 1990 overall jobs supported by exports paid nearly 17% more than the average for all jobs. The gap in manufacturing was 10% and in services no less than 20%.

Manufacturing jobs still pay more on average than service sector jobs, but the gap is much closer where exports are involved. For all workers in 1990, service sector jobs paid \$9.43 an hour on average, versus \$10.83 in manufacturing—a gap of \$1.40. For those jobs supported by exports, the figures were \$11.30 and \$11.69, respectively—a gap of just 39 cents. Note that service sector jobs involved in exports made more than the average hourly wage for manufacturing as a whole.

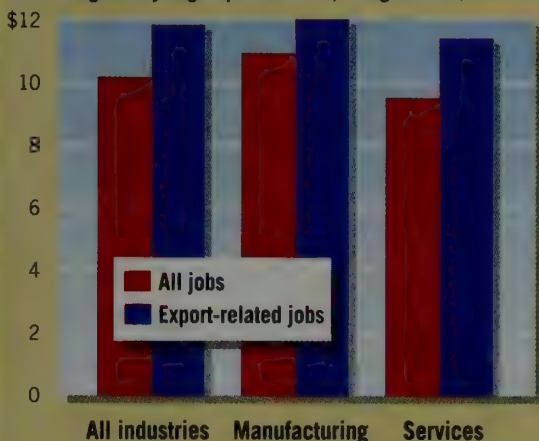
There is a clear relationship between the sectors where the U.S.' export prospects are strongest and those paying the highest wage rates. In chemicals, wages average \$13.55 an hour. In aircraft manufacture, wage rates are \$14.60 to \$15.70 an hour.

The story is the same in services. There is, for instance, a clear difference in average pay rates between retailing (\$7.50 an hour), which serves domestic customers, and wholesaling (\$10.80 an hour), which involves export trading.

The message for protectionists is clear. The best jobs—meaning the highest-paying jobs—come from trading abroad, not putting up walls. The best news for U.S. workers is that merchandise and particularly service sector exports are expected to grow at least as strongly in the 1990s as they did in the last decade.

Exports pay more ways than one

U.S. average hourly wages (private sector, nonagricultural)



Source: Office of the U.S. Trade Representative

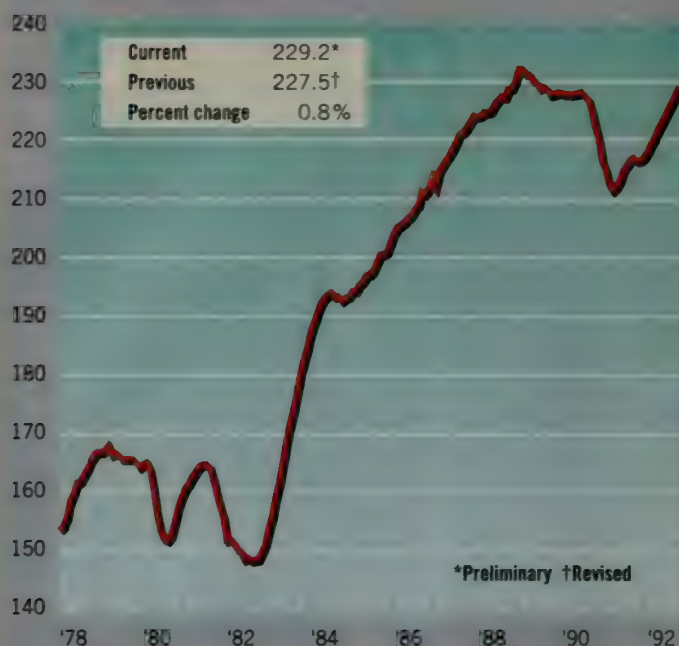
Export jobs pay more and tend to be more highly skilled than in the economy as a whole.

are losing their jobs, which is why the national unemployment rate headed back down in November, to 7.2% from a peak of 7.8% in June. In fact, having added a net 1.4 million or so jobs, the U.S. has restored the number of jobs lost since the recession began.

The best news on the employment front concerns the effect of exports on jobs. According to the Commerce Department's Economics & Statistics Administration, by 1990 (the latest year for which detailed statistics are available), some 7.2 million jobs were supported by U.S. merchandise exports. That was up 42% from around 5 million export-related jobs in 1986.

Commerce Department economists believe that this growth has continued. One estimate suggests that merchandise exports supported 7.6 million jobs in 1991. The trend probably

The Forbes Index (1967=100)



The Forbes Index currently shows a 0.9% gain for October, its largest monthly increase since January 1989, and a 4.7% gain over the past 12 months. Early November results also look encouraging. Retail sales, for example, climbed 0.4% from October to November. "The economy will neither falter nor overheat in the next two quarters," predicts Samuel Kahan, chief economist at Fuji Securities in Chicago. Kahan is forecasting 2% to 3% annualized growth in the gross domestic product through the first half of 1993.

Other key rates

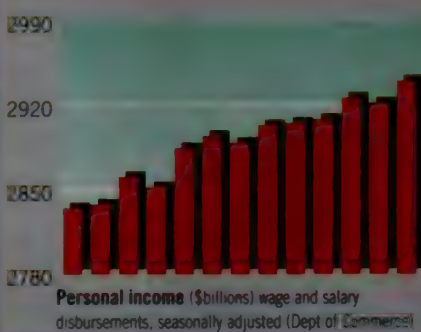
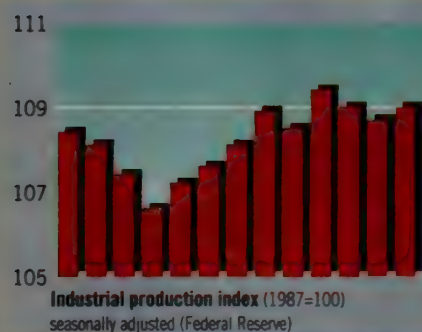
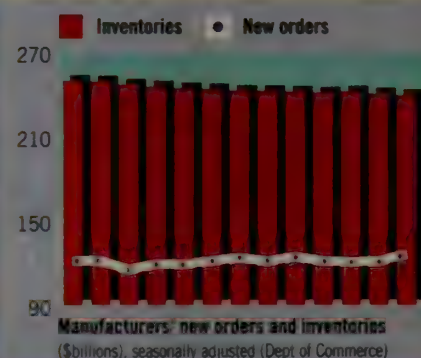
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.0%
Auto sales year to date vs 1991 ¹	Ward's Automotive	1.3%
Index of leading indicators Oct vs Sept	Dept of Commerce	0.4%
Trade balance 12 months ended Sept 1992	Dept of Commerce	-\$76bil
All-commodity producer price index Nov vs Oct ²	Dept of Labor	-0.3%
GDP 3rd quarter vs 2nd—annualized growth	Dept of Commerce	3.9%
M2 (3-month change)—annualized growth ³	Federal Reserve	3.3%

¹ U.S.-based manufacturers, excludes imports, as of 11/30/92. ² Wholesale goods. ³ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



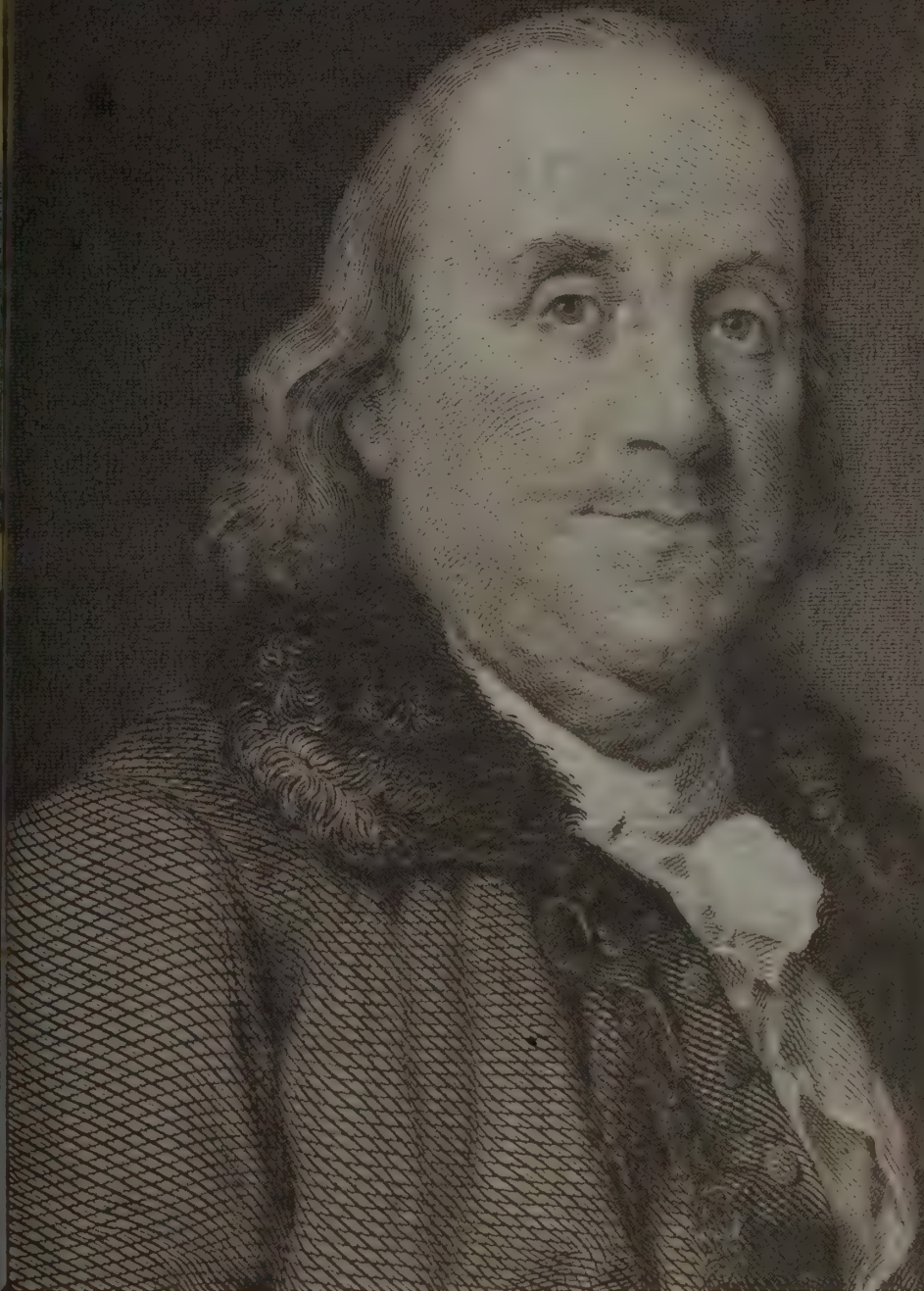
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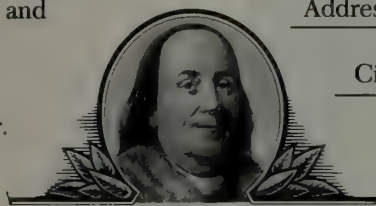
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*Individual securities in the fund, but not shares of the fund, are guaranteed by the U.S. government. Yield and share price will vary with market conditions.

At 450 to the U.S. dollar, the Russian ruble may be a screaming bargain. On the other hand, it may not.

Bread at six cents a loaf

By Paul Klebnikov



FLOUNDERING THOUGH IT IS, Russia is still a massive nation, covering an area twice as large as the U.S., Alaska included. Russia produces roughly \$200 billion a year of oil, gas, steel, coal and grain.

What is this mighty economy worth? Not much if you value the Russian ruble at its current free market exchange value. At 450 rubles to the dollar, Russia's gross national product comes to about \$38 billion. That's somewhere between Pakistan and Greece on the world scale.

Obviously, something's wrong here. A 450-to-the-dollar ruble gives Russia a per capita income of \$250. That can't be so, because if it were, Russians would be as hungry as Soma-

lis. Which they aren't.

Economists measure a currency's value in two different ways: its exchange rate value and its purchasing power parity value. The exchange rate value is determined by market demand for a currency. If businesses and speculators want Country A's currency, they'll sell Country B's currency and buy Country A's. The value of A's currency will rise, relative to B's. In Russia, the supply of foreign currency is limited, and no one wants rubles, so the ruble's exchange rate value is low.

Purchasing power is a different concept. It measures what you can buy internally with the money. In this sense the ruble is unbelievably cheap. In Russia you can buy an excellent loaf

of bread for 26 rubles, even though the same rubles can be swapped for only 6 cents in U.S. money.

Thus the ruble's purchasing power and its exchange value are far apart.

Jan Vanous, director of Washington, D.C.-based consulting firm PlanEcon, has been analyzing the Russian economy for many years. Using purchasing power parities as a benchmark, Vanous believes that at 450 to the dollar, the ruble is valued at 3% of its real, long-term value. Even allowing for Russia's 25%-per-month inflation, Vanous says, a more realistic rate would be about 12 rubles to the dollar. Then Russia's GNP, even after its 35% fall over the last three years, would be worth about \$1.4 trillion, just behind Germany's. That's a relationship that doesn't defy common sense. Comparing the Russian economy with Greece's defies common sense.

If Russia sinks into hyperinflation, of course, the ruble may become worthless. But hyperinflation hasn't arrived. On Dec. 14 Boris Yeltsin named a new prime minister, Viktor Chernomyrdin, the former chief of the oil and gas industry. Chernomyrdin and the big industrial managers he represents sank outgoing Prime Minister Yegor Gaidar's crash program to create free enterprise in Russia. They did so by simply ignoring Gaidar's tight money policies, trading with each other in IOUs, and conspiring with central bank Chairman Viktor Gerashchenko to issue 3 trillion rubles worth of new credits. They also undermined Gaidar by hoarding hard currency in Western banks rather than changing it into rubles.

But now that they're in control, Chernomyrdin and the industrialists aren't likely to do to themselves what they did to Gaidar. They don't want to be thrown out of office.

Their best bet for strengthening the economy is to first strengthen the ruble. That's the advice from such supply-side economists as Jude Wanniski, president of Polyconomics, Inc. "Money is the government's non-interest-bearing debt to its own people," says Wanniski, "and the government should honor that debt."

To show that the government is serious about creating a currency that can act as a store of value, argues

Wanniski, it should stop devaluing the ruble and begin to revalue it—restore some of its lost purchasing power. "Russia has been functioning on a de facto oil standard, so it should lower the ruble price of oil, instead of raising it," he says. Once the ruble commands more goods and services, more people will want to hold it.

The government could also offer zero coupon bonds, perhaps denominated in gold or foreign currency at an exchange rate of, say, 30 rubles to the dollar. And the government still has assets worth trillions of dollars, from gold mines to urban real estate. Selling these for rubles at the revalued rate would be another way of strengthening the currency.

Also, Russia is owed an estimated \$146 billion by various Third World countries, including Syria, Angola, Cuba and Vietnam. A number of Western banks, Chemical Bank among them, are interested in helping the debtor nations buy back their obligations to Russia. Even at pennies to the dollar on this debt, Russia could get a nice chunk of hard currency—more backing for the ruble. And the new government may well have better luck than Gaidar in repatriating the estimated \$20 billion deposited in Western banks by Russian enterprises, and the estimated \$7 billion the Soviet Communist Party stashed abroad.

The bottom line here is that the ruble—barring slippage into runaway inflation—may be seriously undervalued on foreign currency markets. If the ruble rises, currency speculators in Russia are likely to make a big profit. PlanEcon's Vanous points to Poland, where some smart speculators bought zlotys with dollars in the last desperate days of Communism in September of 1989 and saw the dollar value of the Polish currency quadruple during the "Big Bang" reform of 1990. In Czechoslovakia and Hungary, too, some speculators made huge profits when they sold dollars and bought local currency or government bonds.

If you're looking for a last-minute stocking-stuffer, consider a handful of crisp 1,000-ruble notes, available from any hard-pressed Russian. It might end up as wallpaper. On the other hand. . .

Carl Icahn and Leon Black are squaring off over cash-rich E-II Holdings, and once again young Black is holding the best cards.

Senior beats junior

By Roula Khalaf

POOR CARL ICAHN. His old friend and former investment banker, Leon Black, keeps beating him at the game of recapitalizing bankrupt companies. Black outmaneuvered Icahn during the reorganizations of Gillett Holdings, owner of the Vail ski resort (FORBES, Mar. 2, 1992). Black bested Icahn again at furniture and footwear maker Interco.

Black's secret? He has speculated primarily in the bankrupt companies' senior and bank debt, while Icahn typically has bought cheaper, and riskier, junior debt. In both Gillett and Interco, Black was able to use his senior securities and bank debt to gain control of the companies. Icahn has so far lost money on his Interco bonds and has barely broken even on his Gillett investment.

The two old chums are squaring off again, this time in a fight to control E-II Holdings. With revenues of \$920 million, E-II is the bankrupt parent of

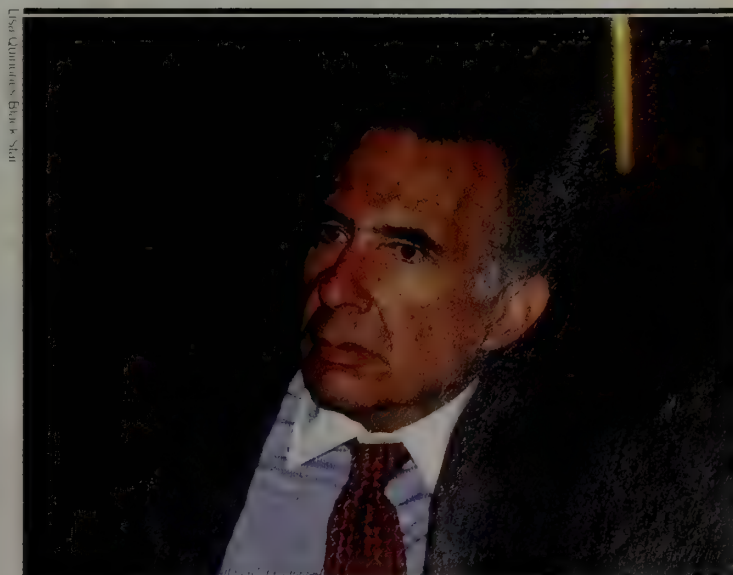
luggage maker Samsonite and two other companies that once belonged to dealster Meshulam Riklis.

E-II has its attractions. As well as a valuable brand name and strong operating income, E-II has over \$250 million in cash. In the right hands, the company could be a powerful vehicle to make acquisitions. This is what Icahn hopes to do with E-II.

Icahn owns 32% of E-II's subordinated debt, bought for an estimated \$77 million. To bring E-II out of bankruptcy, he wants the junior creditors to exchange their bonds for new equity in E-II. This would make Icahn the largest shareholder.

What about E-II's senior creditors? Icahn would effectively give them back their original bonds, worth 100 cents on the dollar, plus accrued interest. But no cash and no equity.

Leon Black has other ideas. Black's Apollo Advisors holds around 25% of the company's senior bonds, but in



Investor Carl Icahn
**Losing out to his
old pal Leon Black
in the vulture
investing game.**



Former Drexel banker Leon Black
When playing against Icahn, he always holds the stronger cards.

this case Black also bought 27% of E-II's subordinated debt; this makes him the most powerful member of the E-II creditors committee. Black has endorsed a plan that would have E-II distribute virtually all its cash—plus new debt and equity—to both the senior and subordinate holders.

How would Black gain his objective, control of E-II? The plan, agreed to by Black and now before the bankruptcy court, gives E-II's senior creditors the right to swap up to \$73 million of new debt for E-II equity.

This is where the Black/Icahn fight gets somewhat nasty. Citing an appraisal made for E-II by Bear, Stearns, Black and the bankrupt company place the value of E-II's equity at between \$125 million and \$225 million, or \$8.08 to \$14.55 per E-II share. But in court papers Icahn accuses Bear, Stearns of undervaluing

the equity. Several Wall Street analysts agree with Icahn. A more reasonable price, they say, is \$20 to \$25 per share.

Why does Black prefer the lower valuation? Because at \$14.55 a share, he can convert his senior debt into more E-II shares than if the equity were valued at \$20 a share. Indeed, working through the arithmetic, it turns out that using \$14.55-a-share, Black can end up with over 50% of E-II's equity. And by getting the stock on the cheap, Black increases the return on his investment.

Icahn is mad about another element of the E-II drama: E-II Chairman Steven Green, an old associate of Riklis. According to another raft of court documents filed by Icahn, Green gave Black valuable access to E-II's books before Black bought his bonds. And under the Black-backed reorganization plan, Green would be

retained to run E-II and could be paid as much as \$21 million over the next three years. A waste of money, says Icahn, who wants Green out.

So far the fight for E-II seems to be going Leon Black's way, again. Icahn recently asked the court to allow him to present his own plan. But a court-appointed examiner has ruled that the interests of Icahn and other junior creditors are already represented by Black's creditors committee. Icahn can try to block the committee's plan. In that event, the judge can impose the plan over Icahn's objections.

Curiously, through all the financial and legal maneuvering, Icahn and Black have maintained a close friendship. The two financiers play tennis together regularly, and even shared Thanksgiving dinner a few weeks ago. In the fight for E-II, a negotiated truce is a distinct possibility.

Economists agree the tax system has contributed to runaway health care costs. But politicians plan to pass the buck to business.

Designated bad guys

By Janet Novack

FIRST THE POLITICIANS figured out how to expand social benefits without taking the heat for raising taxes: Mandate that employers provide the benefits. Now some pols have come up with a similar tactic to cut or tax employees' health benefits: Make the employer do it. "They're trying to use the employer as a buffer," says Dallas Salisbury, president of the Employee Benefit Research Institute. "The voter is likely to be mad at the employer rather than at the politicians."

Here's the background: Most

economists consider the current tax system a major cause of the nation's runaway health care bill. Health benefits receive a great tax subsidy. Employers are allowed to deduct health insurance premiums they pay on behalf of their employees, and the employees are allowed to receive the benefits tax-free. Acting rationally to maximize their aftertax earnings, most middle- and upper-income workers prefer expensive health plans—with broad benefits, low deductibles and few controls on use—

over extra pay, on which they'd have to pay taxes. This is a formula for skyrocketing health costs. When employees pay little of their medical expenses directly, they are oblivious to cost; they consume more services and don't care whether they go to the most expensive doctor.

Meanwhile, the self-employed and workers whose employers don't offer insurance must, for the most part, buy it with aftertax dollars. That's one reason many lack insurance.

The health care reform idea that is currently receiving the most attention is called "managed competition." This proposal would have insurers offering competing plans but with standardized benefits. At the same time, the amount of insurance employees can receive tax free would be limited to the cost of the most efficient plan. The extra tax revenue this would yield would be used to fund tax deductions and subsidies for people who are now uninsured.

During the presidential campaign, Bill Clinton endorsed "managed competition." But he never addressed the crucial question of limiting the tax subsidy—not surprising, since the subject is political dynamite. President Bush's health advisers toyed with the idea of taxing some health benefits for those earning over \$100,000 or so, but decided even that was too risky.

"The trouble with tampering with the [tax] exclusion is the average Joe will think it's a tax increase," says Representative Jim Cooper (D-Tenn.), a key moderate Democrat on health care reform. Which it would be for an average worker with a rich insurance plan—an autoworker, for

A middle-class tax hike

Changes in income tax by income category
Percentage of people under 65 in income category with employer-paid health insurance



Source: Employee Benefit Research Institute

Making employer contributions of more than \$1,620 for individual or \$4,020 for family health insurance subject to personal income taxes would have raised \$10.6 billion in 1991.

example. Not surprisingly, the UAW vehemently opposes any limits on tax-free health benefits.

But there are just too many dollars here for the politicians to ignore (*see chart*). This year the Treasury will forgo about \$65 billion because income and payroll taxes aren't levied on employer-paid health insurance.

To get at those dollars and to limit the tax subsidy, Tennessee's Cooper, working with the Conservative Democratic Forum, came up with a ploy. He would allow employees to continue to receive unlimited health coverage, tax free. But their employers would have to pay a 34% excise tax on their contributions above the cost of the cheapest basic local health plan that meets certain government quality standards. Congress' Joint Tax Committee reckons the benchmark would average \$1,620 a year for individuals and \$4,020 for family coverage in 1994. The committee figured the excise tax would raise \$20 billion in 1995 and \$36 billion by 1998.

Cooper's managed competition proposal is getting a lot of attention these days, in part because it appears to be the politician's equivalent of a free lunch. It would avoid taxing workers directly for company-provided health benefits, and would instead stick corporations with the bill.

In reality, of course, workers who now have the most generous insurance will pay for the Cooper plan. But at least they'll blame their employers and not their congressmen. Or so the congressmen hope.

EBRI's Salisbury figures that in the first year, as companies adjust, Cooper's excise tax might cut into their profits. But by the second year, he says, employers will compensate by reducing wage increases. Over the long haul he expects that most employers will offer only those benefits that are not subject to the excise tax; employees will have to pay for extra benefits with aftertax dollars.

If nothing else, the Cooper proposal will be an interesting test of President-elect Clinton. Will he attempt to perpetuate the myth that workers don't pay for their health insurance through lower wages? Or, for that matter, that corporate taxes aren't ultimately borne by both consumers and workers?

Why would anyone invest in Colombia, seething with violence by drug lords and murderers? In part because of the courage of people like Nicanor Restrepo.

Club Medellín

By Joel Millman

LIFE GOES ON. Nicanor Restrepo, head of the Colombian insurance giant Suramericana de Seguros, would not dream of going out without his bodyguards. Two inside his armored sedan, five trailing behind in a Jeep, they accompany him almost everywhere. "The glass can stop a bullet from a 9mm pistol," explains his driver. Would it stop one from an assault rifle? No, but "those are big guns we can see from far away. And evade."

Welcome to Medellín. Capital of the Colombian province of Antioquia, home base of the Medellín cartel, the narco-thugs who have terrorized Colombia since the mid-1980s. Last fall the cartel murdered 60 Medellín police officers in the space of five weeks; on some nights there are as many as a dozen bombings around the city.

Yet Medellín is also Colombia's business center, famous for its manu-

facturing, food processing and financial services. Surrounded by rich coffee *fincas*, Medellín has been blessed with riches since colonial times. Toyota and Renault assemble vehicles there; Procter & Gamble makes soap; Dutch Akzo, polyester fibers.

The violence and constant danger notwithstanding, many fund managers expect Colombia to be the next Latin "miracle." Colombia's growth rate exceeded those of Mexico and Chile throughout the past decade; its top companies regularly report earnings gains of over 20%. Among the fund managers' favorite shares are Noel, Cadenalco, Cementos Argos and Nacional de Chocolates, all part of Medellín's *sindicato antioqueño*. This syndicate resembles Japan's big industrial groups like Mitsubishi. But the syndicate is in many ways unique.

Nicanor Restrepo, he of the armored sedan, heads one of 86 public-

Medellin businessman Nicanor Restrepo

Despite violence, investing every year.





Medellín, Antioquia. Colombia's terror capital is also its industrial center

Policemen murdered, nighttime bombings . . . and earnings gains of 30% a year.

by traded firms with combined sales of over \$2.5 billion and 1992 earnings of almost \$240 million that make up the syndicate. *Sindicato antioqueño* prospers on a simple principle: Each of the 86 companies supports the others and agrees not to flee abroad with its profits. "If these were family companies," says Suramericana's Restrepo, "the first sign of crisis, the companies would stop all their modernization and leave the country. But we were reinvesting every year."

Each member company agrees to reinvest at least 30% of its profits, and when one company needs more capital, the other companies usually subscribe it, keeping shares out of public hands and thus out of reach of both drug lords and takeover artists.

The businesses are thriving. Cementos Argos and the retail chain Cadenalco reported inflation-adjusted earnings gains of over 30% last year. Typical of the way the Medellín companies cross-invest in one another, Argos is almost a mutual fund, deriving most of its income from dividends rather than from selling ce-

ment. There are not yet ADRs available on Colombian stocks. Yet shrewd international investors have been buying Colombian stocks, apparently attracted by the strong growth rates. According to *sindicato* leaders, George Soros has been buying, along with Baring America Asset Management's Puma Fund.

Sindicato antioqueño formed originally in self-defense against takeover specialists from Bogotá. In the 1970s stocks on Colombia's three exchanges were selling at dirt-cheap prices. Thus, when new tax laws made the stocks popular by eliminating taxes on capital gains and dividends, dozens of companies suddenly found themselves in play. Sugarcane king Carlos Ardila Lulle and brewing magnate Julio Mario Santo Domingo (*FORBES*, Aug. 3, 1992) were the first to invade Medellín, Ardila snapping up its leading cotton mill, Coltejer, and Santo Domingo grabbing Medellín's top brewer, Cervunión.

But when Santo Domingo coveted a Medellín bank, Restrepo and his soon-to-be syndicate made a stand.

Local firms joined to buy up the bank's shares and swap blocks of one another's shares. Suramericana, Argos and food processor Nacional de Chocolates emerged as the leading holding companies. Each held large stakes in affiliated members; control of the group's companies rested within the group itself. When the smoke cleared, there weren't enough shares of any one company in public hands to make an outside takeover feasible.

Medellín's business elite is still dominated by these reluctant white knights. "Our self-defense against the raiders in the 1970s gave us a wall against narco-money in the 1980s," says Juan Gonzalo Uribe, a manager at textile manufacturer Fabricato. "For ten years there has been no real change in ownership."

Colombia's drug violence and terrorism continue almost unabated. After a lull during the incarceration of narco-chief Pablo Escobar, Medellín has exploded again this past year. Still, men like Nicanor Restrepo ride the streets in well-armed caravans. And they are staying put.

In its Lexis and Nexis data retrieval services, Mead Corp. has had two strong brand names that threw off lots of cash. But no brand name is forever.

Logging off Lexis

By Marcia Berss

IN ELECTRONIC PUBLISHING, two brand names dominate: Lexis and Nexis. Launched in 1973, Lexis is a database of legal cases; Nexis is one of the largest databases of newspaper and magazine articles.

The two retrieval services are major cash generators for Mead Data Central and its parent, Mead Corp., the big papermaker. At around \$470 million, Mead Data's revenues are only one-tenth of the company's overall sales, but in 1991 the data business earned \$41.5 million pretax. This was about 15% of Mead's overall pretax net and a welcome contribution to a capital-intensive parent company whose earnings are quite cyclical. Some have estimated that on its own Mead Data may be worth about \$800 million, about one-third the stock market value of Mead as a whole.

Suddenly, however, trouble is emerging at Mead Data. Two things have happened. Growth at the information retrieval service has slowed from 30% a year in the 1980s to less than 10% a year now—and will stay there, says Mead—partly because the lawyers and bankers who are key users aren't doing as many big deals as they used to. But on top of this general slowdown, Mead Data Central's system has been, according to industry experts, technologically leapfrogged.

The problem is especially acute at Lexis, which accounts for about 70% of Mead Data Central's sales, and probably more of its profits. An aggressive competitor, privately held West Publishing Co. (estimated sales, \$525 million), has developed a legal case retrieval system that is much easier, and potentially much cheaper, to use than Lexis.

Based in Eagan, Minn., West Publishing has capitalized on the fact that



it is also a leading lawbook publisher. In addition to providing its data search customers with the full text of court decisions, West incorporates useful summaries of decisions found in its books. By contrast, Lexis publishes only the full text.

Another difference: West charges its customers fees based on the time a user is actually connected to West's database; the idea is that having done a computer search, users should go off-line and use West's books. This helps keep search costs low. Until recently, Lexis levied an average fixed charge of \$24 for every search made. But, to respond to West Publishing's challenge, Lexis has been obliged to offer pricing by time. This could be less profitable for Lexis, depending on use.

In another blow to Mead, in 1988 it settled a court case with West. As a result, Lexis now has to pay to use West's copyrighted index reference system. And to neutralize Mead's key selling point that Nexis, the general news retrieval service, and Lexis are available on the same system, West Publishing recently agreed to offer

Knight-Ridder's Dialog general news retrieval service to West's customers.

In September West introduced its biggest threat yet to Lexis, creating a system that is more user-friendly. To use Lexis requires knowledge of arcane programming language based on Boolean logic. But West's database can be searched using ordinary language.

This is an important difference. For example, to search West's database for cases involving travel agents' liability, a lawyer might type in: *Can a travel agency or book publisher be held liable for injuries sustained by a tourist while visiting a recommended place?* West's system would then spew out the relevant cases. But to give the same instructions to Lexis, a lawyer must type in the following Boolean sequence: *(travel w/15 agen! or guide or brochure or literature) w/25 (injur! or accident or death) w/25 (tourist or traveler).*

West, which got into full text legal information retrieval in 1979, six years after Lexis, has cut Lexis' market share from 95% in the early 1980s to 60% today. If early kinks can be worked out of the natural language interface, many legal data experts expect that West could soon have a larger share than Mead. Meanwhile, Knight-Ridder's Dialog service for general news retrieval continues to take bites out of Nexis' market share.

The trouble at Lexis and Nexis comes at a terrible time for Steven Mason, who was named chief executive of parent Mead Corp. in May. Mead has just finished building a \$580 million coated paperboard plant in Alabama, and the company's debt now stands at 46% of capital, well above Mead's normal 30% to 40% levels. Now Lexis and Nexis will probably not be spinning off as much cash as before to help pay down that debt.

Mason has begun to take strong action to get the data retrieval operations back on track. In October David Berger, the head of Lexis, was fired. Three weeks later Mason sacked Jack Simpson, the president of Mead Data Central since 1982. But it is probably too late to repulse West Publishing's assault on Lexis. Opines Robert Berling, head law librarian at the University of California at Berkeley: "If I was Mead, I would be worried."



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Media hoopla to the contrary, the evidence suggests that banks are color-blind when it comes to mortgage lending.

The hidden clue

By Peter Brimelow and Leslie Spencer

"DEFINITIVE—changes the landscape." —Office of the Comptroller of the Currency.

"Comports with common sense, no more studies needed." —Richard F. Syron, president, Federal Reserve Bank of Boston.

These ecstatic press notices greeted the Boston Fed's recent study claiming to prove racial bias in mortgage lending—the social problem of the season, with coverage in the *Wall Street Journal* (five stories in eight weeks), regulatory rumbles from the Federal Reserve, legislative leers from Congress. The pressure is on mortgage lenders to change credit standards for minorities.

But the study's analysis makes an elementary error about a crucial question: minority default rates. Queried by FORBES, Alicia H. Munnell, Boston Fed senior vice president and research director, conceded that the study's handling of default rates was "definitely not an adequate look at all."

Minority mortgage applicants do tend to be rejected more than whites. A Federal Reserve Board survey of 6.6 million home mortgage applications in 1991 showed that 37.6% of black applicants and 26.6% of Hispanics were denied home loans, compared with only 17.3% of whites. This finding held across all income levels.

But was the difference the result of racism? Or of an objective, color-blind application of sound credit standards? The data on default suggest the latter is true. Mortgage lenders consider a range of criteria going far beyond income, such as net worth, age, education, probability of unemployment and credit history. Minorities frequently fare worse by such measures. Perhaps that's because society gives them fewer opportunities. But mort-



gage lenders would still be objective, not prejudiced, in rejecting them.

The Boston Fed study did correct for standard credit criteria, based on a sample of Boston-area mortgage applications. It found that these criteria did explain about two-thirds of the difference between white and black/Hispanic rejection rates. But even after this correction, minorities seem to be rejected at a rate of 17%, as opposed to only 11% for whites. This difference, the Boston Fed claimed, must be caused by racism.

Oh, yeah? But what about those default rates?

"We were aware that people say, 'Oh, this may be rational discrimination, because minorities 'default more,' " the Boston Fed's Munnell told FORBES. But her study sample was too recent to check default rates directly. Instead, the Boston Fed compared default rates across census tracts. "And what we found was, there was no relationship between the racial composition of the tract and the default rate. So it wasn't true that tracts with large minority populations had higher default rates."

Think about this carefully. The Boston Fed authors apparently assumed that equal default rates meant all minority applications are an equal credit risk compared with whites. But they're wrong. These census tract mortgages had already passed through the loan approval process—

which had presumably rejected a higher proportion of minority applicants on the way. So the fact that white and minority default rates finished up equal meant mortgage lenders knew what they were doing.

The market, in short, worked. The mortgage lenders somehow weeded out the extra credit risks among minorities, down to the point where white and minority defaults were at an equal, apparently acceptable, rate.

"[That] is a sophisticated point," says Munnell, questioned by FORBES. She agrees that discrimination against blacks should show up in lower, not equal, default rates—discrimination would mean that good black applicants are being unfairly rejected. "You need that as a confirming piece of evidence. And we don't have it."

FORBES: Did you ever ask the question that if defaults appear to be more or less the same among blacks and whites, that points to mortgage lenders making rational decisions?

Munnell: No.

Munnell does not want to repudiate her study. She tells FORBES, on reflection, that the census data are not good enough and could be "massaged" further: "I do believe that discrimination occurs."

FORBES: You have no evidence?

Munnell: I do not have evidence. . . . No one has evidence.

But if there is racial discrimination in lending, it means that mortgage lenders forgo profitable business because they are prejudiced. That's unlikely on the face of it and becomes more unlikely when one notices that Asian-American applicants are actually turned down less often (15% in the Fed survey) than whites.

Moreover, logically, it could be precisely those institutions marketing most vigorously to minorities that generate the most marginal applications—and therefore the highest rejection rates.

The Boston Fed study itself noted that denied minority applications on average had "poorer objective qualifications," suggesting "a systematic bias in mortgage lending is very difficult to document. . . ."

But in today's climate, any statistical disparity is viewed as discrimination—and an excuse for more social engineering.



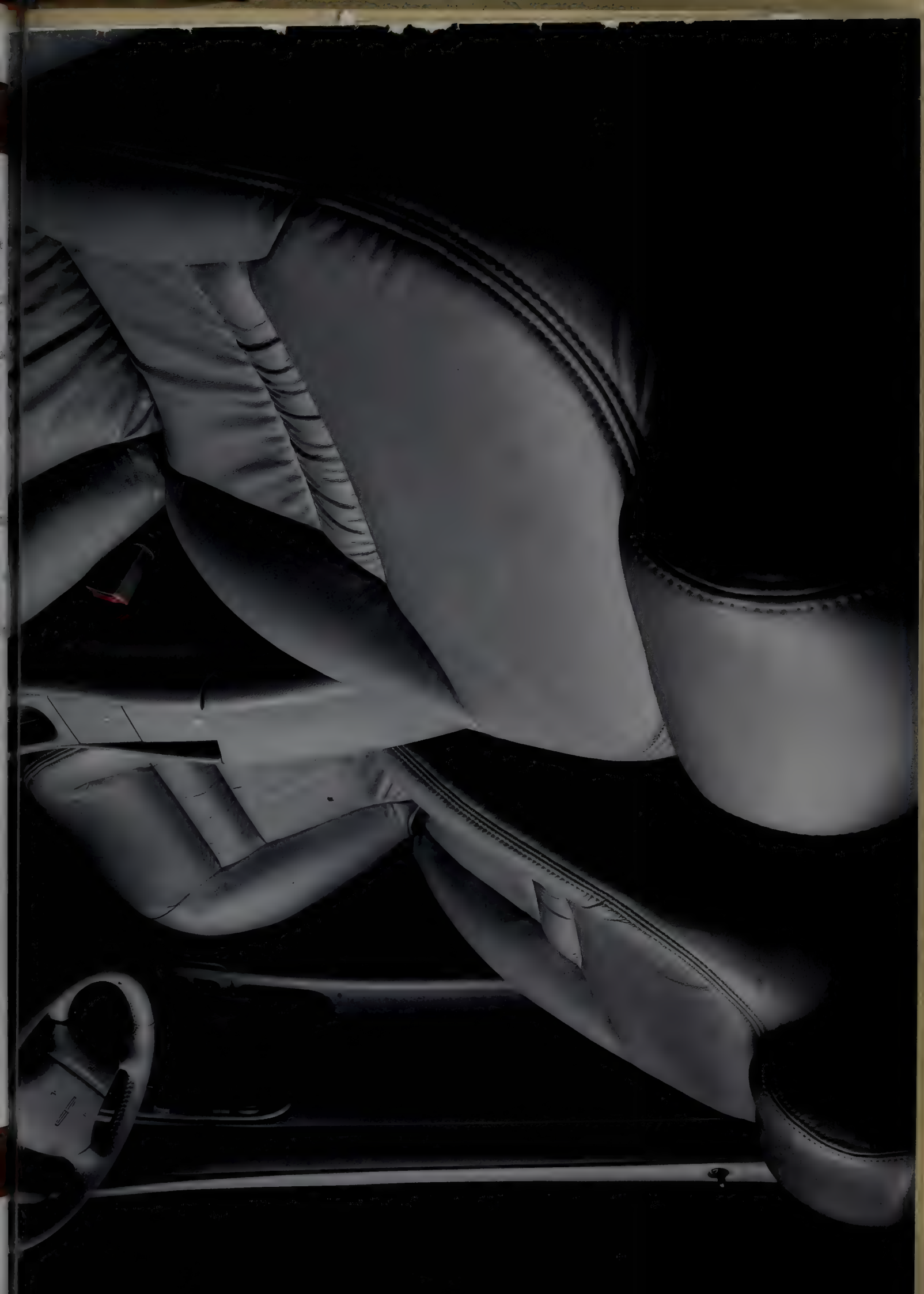
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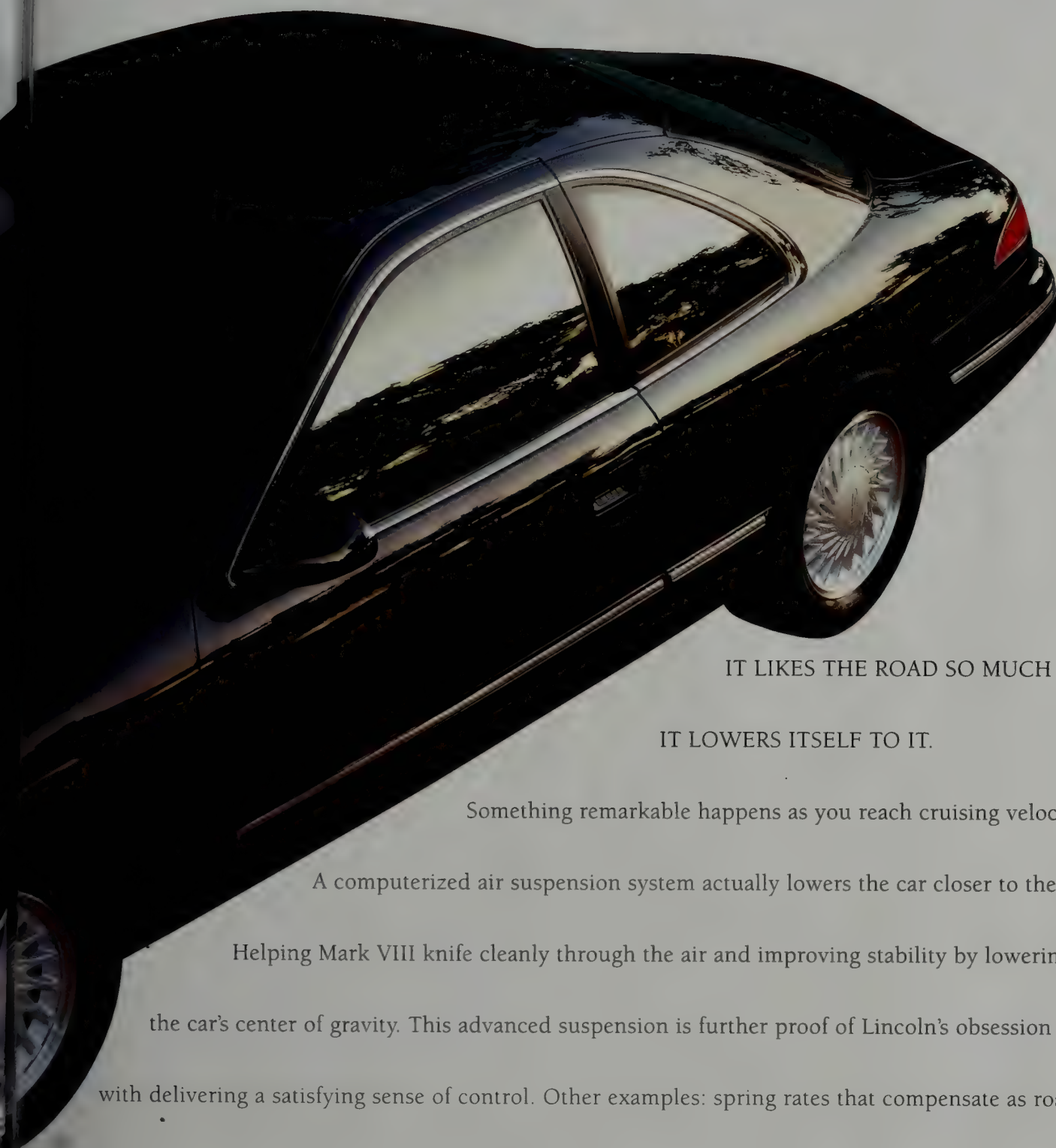
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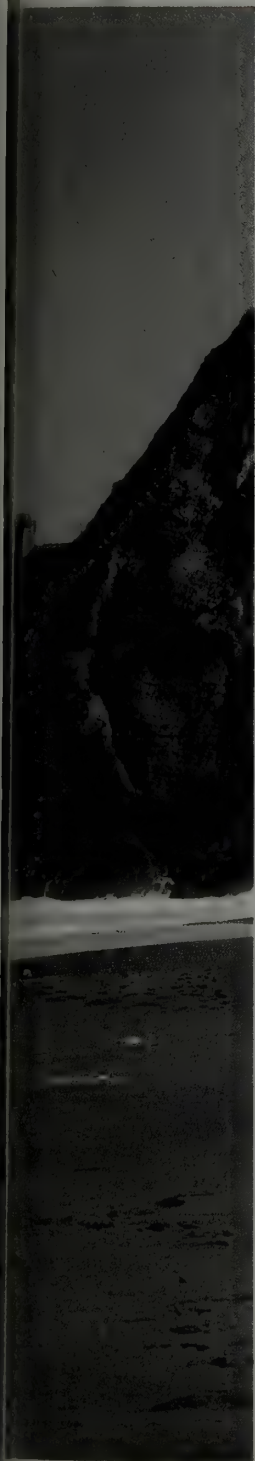
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WHAT A LUXURY CAR SHOULD BE





The Golden Gate Bridge,
photographed by Morley Baer.

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Bank of America

Owens-Corning Fiberglas has come through some rough times, but for those in the company who think things will get easier, the new boss has a message.

"These are the good old days"

By Jerry Flint

TO SAVE Toledo's Owens-Corning Fiberglas Corp. from an unfriendly takeover in 1986, the company did a leveraged buyout on itself, borrowing about \$2 billion to pay shareholders a dividend of \$81 a share. To reduce debt, it sold off businesses and gutted research and development, which had made OCF an industry leader.

That started the trouble. Throw in lots of bad luck: Business slowed in its customer industries, like boat building and housing, and the chief executive developed cancer and retired unexpectedly in 1991. Even though OCF was only a minor player in asbestos, nevertheless, being solvent, it was a

magnet for lawsuits.

In 1991 sales ran at about \$3 billion a year, some 20% less than on the eve of the recapitalization. Even the operating profit of \$237 million vanished in a giant writeoff.

Desperate, the board tapped Glen Hiner for chairman last January. He had run GE's \$5 billion (sales) plastics division. Hiner, 57, ticks off problems he faced: "When I came in our R&D was on the short term as the number one priority was to pay down the debt. We had become fairly stagnant. We had \$3 billion in sales and couldn't get off that plateau."

Not a promising picture, but Hiner

rolled up his sleeves and began applying his GE knowhow to the problems. Most important, he began shifting more of the R&D budget into product development from what it was going into—cutting processing costs. For example, fiberglass is excellent for most roof shingles. To expand its already strong presence in the roofing business, OCF has developed glass fiber roof tiles that look like terra-cotta clay but are lighter and easier to put on, meaning they can be sold in the replacement market, too, for roofs that couldn't take heavy tiles before. In similar fashion, OCF has entered the house window business with glass fiber window frames—the frame becomes the insulation—with patio doors and skylights to go with them.

"If we can't get that [the window frame] to a \$500-million-a-year business, we will have failed," Hiner says, pictured here with the Pink Panther, which the company uses to promote its pink glass fiber.

Another potential product under test: fiberglass walls and panels for refrigerators and water heaters—again the insulating material becomes part of the structure. Glass fiber is more expensive than traditional insulators, but Hiner wants to show manufacturers they can justify the addi-



Owens-Corning's Glen Hiner and marketing friend

"We want to get products out in four years instead of eight to ten years."

ional cost by providing more usable space in a glass fiber refrigerator.

These items were all in the works before he came on board last year, but Hiner demanded results. He says: "The secret is applying time to research. Why does it take ten years to move from R&D to product? We want to get products out in four years instead of eight to ten years."

Hiner has convinced Wall Street that he knows what he is doing. Kidder, Peabody & Co. enthusiastically talks about \$8 a share by 1996. The company is expected to earn close to \$2 a share in 1992 and maybe \$3 this year. If the optimistic forecasts are correct, OCF is a cheap stock even though it currently sells at more than 17 times 1992 earnings.

Asbestos liability has been largely eliminated as a drag on future earnings. Hiner pushed OCF to book an \$800 million charge in 1991 for future possible costs from asbestos claims. That charge, plus writedowns to cover post-retirement employee medical costs, more than wiped out operating income of \$237 million in

1991 and created a net aftertax loss of \$742 million, or \$18.13 a share. With that behind it, OCF will soon once again be in good financial shape. Debt is down to \$1.1 billion from \$2.5 billion in 1986. "We can manage a debt load of \$900 million, and can get there over two years," says Hiner.

Meanwhile, Hiner pounds away at building a better company.

"One of my jobs is to convince people that the good old days aren't coming back," he says. "Sure there will be early retirement options, and cost-cutting. We have 40 plants—why does every plant need its own payroll department? We don't do a very good job of leveraging our purchasing or information systems. So there's plenty to do.

"This is a different world, and it challenges everything we do. Can we do it better? Because if we don't, someone else in the world will take it away. Restructuring is a way of life."

Hiner shies from the image of a ruthless cost-cutter. "I'm from West Virginia. Dad worked in a coal mine all his life. I come with a certain

amount of humility. I didn't come here to tear down the company. The role of dignity and respect in this company would be special to me, from day one."

He takes part in get-together-with-the-boss programs, tours plants with the union leaders, attends family nights (at baseball games, hockey, the symphony) with employees.

But he also has a message for his associates who think business life will never again be relaxed and easy. "These are the good old days," he says. As if to prove his point, scarcely had he put asbestos litigation costs behind him than another bogeyman appeared. With profits from asbestos litigation tailing off, the lawyers may try to build a case that glass fibers kill or sicken people. Recently *Barron's* ran a three-page piece implying that glass fiber is a health hazard, although evidence was weak. "The *Barron's* piece was an atrocity," says Hiner bitterly. Most of the evidence says he is right, but you never know what juries will decide in personal injury cases against big corporations. ■



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If the Eighties was the decade to drape the body, the Nineties is shaping up as the decade to drape the home.

Sprucing up the cocoon

By Amy Feldman and Joshua Levine



Felissimo's new chic store just off New York's Fifth Avenue

An emphasis on environmental correctness translates into \$1,145 coat racks made from recycled metal and lamps with nontoxic paint.

EVERY WEEK OR SO, Pamela Savage of Short Hills, N.J. treks around the corner to Bed Bath & Beyond, a home furnishings superstore that stocks everything from comforters to cookware. She usually ends up walking out with more than she thought she needed—some new lamps, say, or wallpaper trim. Savage, a passionate shopper, now buys seasonal wardrobes for her beds as well as for herself.

If the Eighties was the decade to drape the body, the Nineties is shaping up as the decade to drape the home. People won't stop buying clothes, of course, but they've got only so much money, meaning a new sofa or lamp must compete with a new handbag or blouse.

Right now the betting is that home furnishings retailing, for long taking a backseat, is likely to outpace the growth in the apparel market for years to come. Sales of all home goods came to \$226 billion for the first three quarters of 1992. That's up 7% from the same period in 1991, almost twice the rate of growth in apparel sales, and gaining ground on apparel's \$237 billion for the same period. "It hasn't been this way since the 1950s," says Kurt Barnard, president of Barnard Retail Consulting Group.

Chalk up most of this to demographics. The median age of Americans today is 34, and headed for 37 by the year 2000. "As people get older they spend more time at home, and



more money on it," says Carl Steidt-
mann, a retailing economist at con-
sultant Management Horizons.

Home furnishings hopefuls are
counting on fashion and taste changes
to do for them what they have long
done for apparel makers. "People
used to think, let's invest in a chair and
it will last 5,000 years," says Marian
McEvoy, editor in chief of *Elle Decor*,
a three-year-old extension of the fash-
ion magazine *Elle*. In the future, she
thinks, compulsive spenders can be
coaxed into redecorating continually.

Hachette Magazines, *Elle's* parent,
recently bought *Metropolitan Home*,
also devoted to home furnishings.
"It's a perfect extension of the fashion
business," says David Pecker, Ha-
chette Magazines' chief executive.

Many traditional fashion designers
agree. Geoffrey Beene figures if you
love his elegant dinner dresses, you're
going to love his new side table. It has
a silver-leaf top supported by four
black lacquer humanoid legs with
shoes and spats for feet. Beene will
also sell you his cast-aluminum chair
and ivory-and-black-striped settee.
Ralph Lauren was among the first to
apply his style to towels and table-
cloths, but recently his colleagues
have been piling into home furnish-
ings. Adrienne Vittadini now sells
frilly wallpaper and fabric, and even
haute couturiers like Jean-Paul Gaul-
tier are peddling chests and chairs.

"I want to dress the home like I

Adrienne
Vittadini's
new wallpaper
and fabrics

**Fashion design
for the home as
well as the body.**



dress a woman," says Donatella Gi-
rombelli, who owns Italy's Genny
Group fashion empire and plans to
move into home furnishings.

So does Victoria's Secret, the spe-
cialty retailer for frilly undies. Lately
its catalog business has been sluggish.
Last August the catalog experimented
with home furnishings offerings—
items like hand-quilted bedspreads,
quilt racks and lamps.

Until recently many furniture
showrooms looked like storerooms.
Jeffrey Seaman, a member of the fam-
ily that founded the Seaman's furni-
ture store chain, got back in the busi-
ness when he founded Rooms to Go
in 1991. Rooms to Go is one of a new
breed of home furnishings merchant
that's looking to borrow some glitter
from the fashion business. Seaman
sells complete room ensembles of sev-
en-to-nine coordinated pieces. His
inspiration comes from stores like the
Gap that merchandise coordinated
outfits. The Florida chain's 19 stores
now have sales of close to \$100 mil-
lion. Says Seaman: "You've got to

make furniture shopping fun."

Manhattan's brand-new Felissimo
home furnishings store in a converted
town house off Fifth Avenue fairly
reeks of chic. Felissimo's gimmick is
environmental correctness, now in
vogue—like lamps made of non-rain-
forest wood and nontoxic paint, for
\$150 to \$1,000; or items designed by
Joseph Tubman from recycled bicycle
chains. The top floor is given over to a
tea room and "artspace."

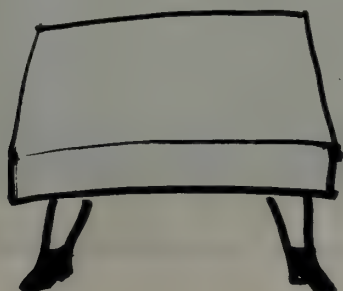
Bed Bath & Beyond isn't nearly so
artsy. Its new 50,000-square-foot
flagship store in Manhattan is filled
with \$9.99 towels, \$17.99 irregular
sheets, \$54.99 dinnerware sets and
\$19.99 magazine racks. Shoppers
wheel carts around Kmart-style.

In June the company raised \$106
million in an initial public offering.
The stock rose from 17 to a recent
high of 35¼. The chain's 38 stores are
projected to have sales of over \$200
million in 1992.

Department stores would seem
natural beneficiaries of this trend, but
here, too, they seem to be losing.
They have 20% of the estimated 1992
\$4.7 billion bedding market and 16%
of the \$2.5 billion bath products mar-
ket, down from 27% and 19% in 1987,
according to consultant Kurt Salmon
Associates. Their problem is they are
squeezed between superstores like
Bed Bath & Beyond on the one side
and upscale marketers like Felissimo
on the other.

LEFT:
Bed Bath & Beyond founders
Warren Eisenberg (left)
and Leonard Feinstein
**50,000 square feet of
linens, towels and
assorted knickknacks.**

RIGHT:
A sketch for a planned
Geoffrey Beene side table
**"It's a perfect extension
of the fashion business."**



SB

When he lost his job, Robert Joseph took to begging—in his own way.

My limousine is waiting

By Dyan Machan

WHEN PEOPLE SAY we are suffering a white-collar recession, Robert Joseph, 41, knows what it means. Only five years ago Joseph was featured in a *FORBES* article entitled "How to survive in advertising" (*July 13, 1987*). Joseph's impressive credentials included ad campaigns for Texaco, Minolta and Travelers insurance. He won some awards.

He still didn't survive the current recession. Several months ago Joseph lost his \$100,000-plus-a-year job after the New York office of CME/KHBB Advertising got its third new creative head in five years.

It's rough out there. Statistics show that while 90% of the unemployed in the early 1980s found similar work, in the 1990s only 25% have been so lucky. In advertising, an industry that continues to shrink, it's even bleaker.

But say this for Joseph. He doesn't just sit around and brood.

First he tried the conventional things—calling headhunters, making contacts and sending out his résumé. No luck. "Going to advertising firms and asking for freelance assignments was like begging for work," says Joseph, "so why not do it on my own terms?"

Joseph went out on Manhattan's shabby 14th Street and set up a desk with a typewriter and phone beside a hot dog vendor. A sign on the desk read "Bob Joseph Advertising, Inc., Paris, Milan, Tokyo, Grand Central Station."

As people passed by, he

tried to sell them advertising. To a young man with rings in his nose and ears, describing himself as a cyberpunk rock musician, Joseph said, "Very competitive, the cyberpunk market. No one knows your name." He suggested the hot dog vendor personalize by naming his cart: "George's hot dogs—much easier to say than McDonald's." The vendor took a pass when he found out the price tag was \$1 million.

After 14th Street came Chinatown and Fifth Avenue. Joseph even put his desk outside the New York headquarters of Saatchi & Saatchi Advertising. "Test markets," says Joseph. "You've got to see where your product will sell."

He took a sign that said "Will write TV commercials for food" around

Union Square. He put together a production crew of volunteers who filmed him around the city—even in the subway, where he gave this pitch: "... I got fired from my job. I have a brownstone in Brooklyn and an apartment in Manhattan. My son's ninth-grade class is planning a trip to Paris this summer; \$10, \$20 or more would really be appreciated. American Express, Visa welcome. If not for me, think of my son, his French could really be better." He plans to send the tape to ad agencies.

Has this man lost his marbles? Joseph answers for himself: "I'm not making fun of homeless people, or asking people to feel sorry for me. But I have done advertising my whole life. I can't stop and become a computer programmer. If anything, the campaign is a protest statement. Against what? Against losing."

Effective? So far, Joseph hasn't been offered the right job. But what he's doing is clearly better than soaking his sorrows in booze or in self-pity. He also thinks the story of an unemployed ad executive and what he goes through eventually could become a TV series.

"It's an incredibly competitive market for jobs," he says, "and you have to take a risk. Great advertising is a risky business." Joseph recalls that initial reaction to his idea for a Texaco ad campaign was that it was too far out. The ad showed a man, who didn't own a car, crossing the desert with a gas can. But those ads became the most successful campaign for any new gasoline launch.

A little self-deprecating humor helps in a situation like this. "Otherwise you perish," says Joseph, adding, "I'm sorry, I've got to go. My limousine is waiting."

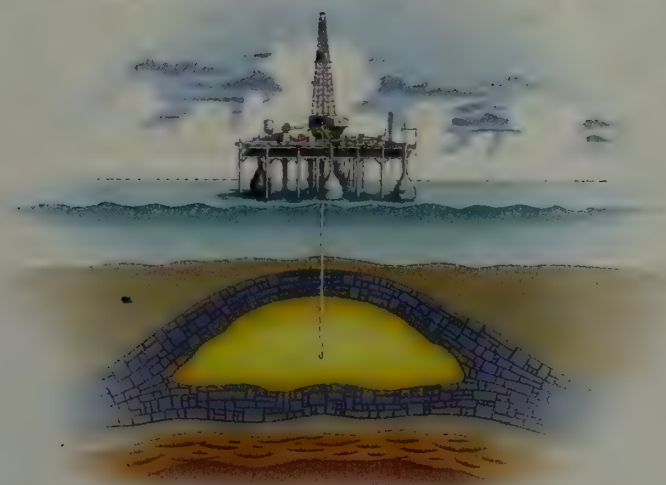
We've a feeling that one way or another this man will end up on his feet, if not in advertising, in something. Not because we recommend such bizarre behavior to everyone but because Joseph displays energy, initiative, imagination. Instead of just sitting there waiting for luck to come his way, he's out there trying to grab luck by the tail.



Unemployed copywriter Robert Joseph
His latest campaign is a protest against losing.

Edward S. Samuels

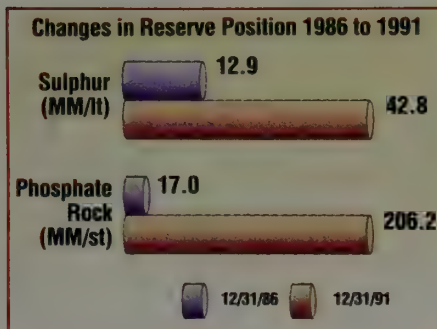
SUPER DOME



The truth is, Louisiana has two super domes — one home to major sporting events and the other home to the first major Frasch sulphur discovery in North America in 25 years.

Freeport-McMoRan's super dome, located in the Gulf of Mexico, boasts the largest existing Frasch sulphur deposit in North America, with enough sulphur reserves to last 30 years or more. Even as we dramatically increase production.

This super dome enhances our position as the largest integrated and one of



the lowest cost producers of phosphate fertilizers in the world, a commodity with proven global demand.

Through our exploration successes and timely increases in production capacity, we are providing substantial rewards for our shareholders.

We invite you to learn more about Freeport-McMoRan and how we are managing our success.



**FREEPORT-
McMoRAN**

A Natural Leader

Don't bet your bottom dollar, but as an intriguing long shot, Brazil's telecommunications company, Telebrás, is well worth a look.

Contrarian Investing 101

By Phyllis Berman

CHILE LED THE way in 1987. Mexico followed three years later. Then Argentina jumped in and Venezuela followed. Now Uruguay, Peru, Panama, Ecuador and Colombia are getting ready to privatize their telephone companies.

Investors are drooling at the prospect of more privatizations. Past ones created huge profits for the early birds. The American Depositary Receipts (ADRs) of Companhia de Telefones de Chile issued at \$15 in 1990 now trade at \$57. ADRs of Teléfonos de México shot from \$27.25 in 1991 to \$56. ADRs in Argentina's company, Telefonica de Argentina, are up 72% since December 1991.

Investors aren't the only ones drooling. Hordes of Wall Street bankers are on the prowl for more such deals because of the fees and commissions involved. Salomon Brothers, for example, got 6% of the equity raised for Teléfonos de Chile. Such fees are only the beginning. Once private, the telecommunications companies require billions in fresh capital to expand and modernize; yet more gravy for the money raisers.

All of which makes the situation of Brazil's telecommunications company, Telebrás S.A., the more frustrating. With 52% of its shares owned by the government, Telebrás is—to put it mildly—a mess. Brazil's government, presiding over the world's fifth-largest nation, is an even worse mess. In October President Fernando Collor de Mello was forced out of office on charges of corruption and now faces impeachment. Interim President Itamar Franco, bucking a world trend away from state socialism, is a

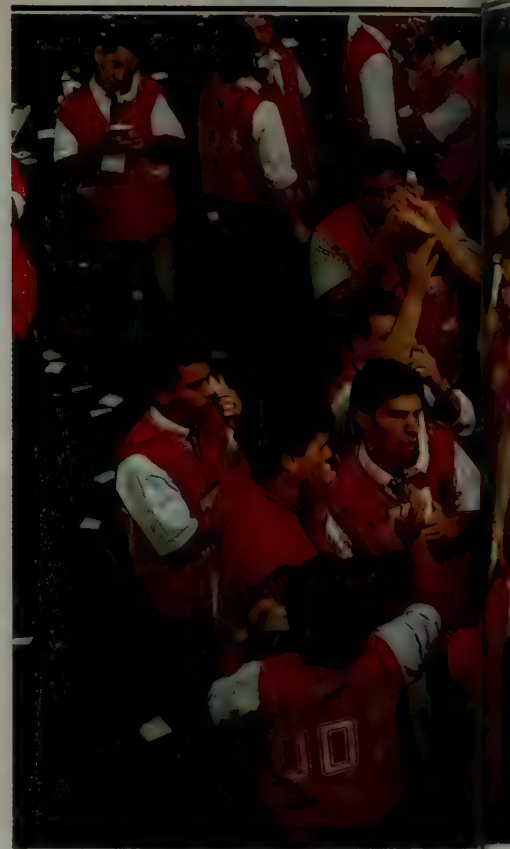
statist. While Collor was committed to privatizing most government-owned companies, Franco is still vague, reportedly threatening to halt the privatization. That means these inefficiently handled assets will continue to be run for political ends rather than with an eye to efficiency and service.

In any case, before the telephone company could be privatized, Brazil's constitution would have to be amended. The constitution states that the majority ownership of strategic companies in the oil, telecommunications and mining sectors must remain in the hands of the government.

Yet statism has brought Brazil little but economic grief. Brazil alone



Beach phone in Rio de Janeiro
Nine million lines, 153 million people.



among Latin American countries hasn't succeeded in reducing its external debt, now standing at around \$117 billion. The country's per capita income has grown little since 1970. Inflation is running at 26% per month. Government corruption is rampant.

Telebrás shows the dire signs of political management. Since telephone rates are part of the market basket that determines consumer prices and thus inflation rates, the government holds the rates artificially low in order to make inflation numbers look better than they really are. With earnings growth thus limited and with Brazil's credit lousy, Telebrás cannot easily raise money. As a result, it lacks capital for modernization. Lacking capital, Telebrás makes new customers pay up front the capital cost of new service. In a country with a per capita GNP of \$2,710, the hookup charge varies from province to province and is about \$2,000.

As a populist measure, rates are so international and domestic long distance rates subsidize local rates international calls placed in Brazil cost 30% to 40% more than if placed elsewhere in the world. Yet the base local rate is only around \$1.50 per month and that includes 22 minutes of usage.

As a result, Brazil's economic de



Carlos Humberto TDOContact

wordless phones at Rio's stock exchange
ousy service makes business difficult.

development is seriously held back. As part of a deal with the International Monetary Fund, the Collor government agreed Telebrás would get a real rate increase of 30% in 1992. But the Franco government reneged, holding the rate increases to less than the rate of inflation. So cheap phone service gets even cheaper, and Telebrás is prevented from expanding and modernizing.

Privatization of phone service has produced tangible results in Mexico. In the late 1980s, prior to privatization, Mexico had 5.5 million telephone lines for its 83 million inhabitants—6.6 lines for every 100 people. Since privatization, the number of lines per 100 inhabitants has increased to 7. By the end of the decade Mexico is expected to have 17 lines per 100 people.

In Brazil today the population is 153 million and the number of telephone lines under 10 million—6 for every 100 people. If the pent-

up demand for telephones in Brazil is anything like it is in Mexico, the potential growth of Telebrás is obvious. Just bringing the proportion to the current Mexican level would mean 1.5 million new lines, a 15% increase. Bringing it to the potential Mexican level would mean 17 million new lines, a 190% increase.

Weighing the bright prospects versus the dismal political reality of Brazil, a few contrarian investors find Telebrás attractive. Rowe Michels of D.A. Campbell, an institutional brokerage firm specializing in Latin American investments, says: "It's a speculative stock, but the upside could be significant."

Gerard Finneran of Trust Co. of the West puts it more strongly: "The downside risk is minimal and the upside is enormous. Telebrás is where Telmex was in 1988—long before Telmex's ADRs were issued. That's when the real money was made."

Finneran, formerly with Drexel Burnham, recalls a visit he made to Mexico with Michael Milken in 1987. Soon after Milken began buying Telmex original shares at 18 cents per share. Those shares now trade for \$6.87. "Yet you had a universal opinion that it was the wrong thing to do," says Finneran.

Telebrás ADRs, at a recent price of \$12, are cheap. In October the com-

pany issued a so-called Level One ADR Facility. This did not constitute a new issue but was a mechanism allowing foreign investors to trade shares without currency conversions. Whereas Telmex currently has a market capitalization of \$29 billion, Telebrás' capitalization is \$3 billion, though it serves nearly twice as many people as Telmex. Teléfonos de Chile has a market cap of about the same as Telebrás, but Chile's population is only 13 million; Argentina's two companies, Teléfonica and Telecom, with combined market caps of \$6 billion, serve 32 million people.

With ADRs at \$12, Telebrás investors are paying about \$327 per installed line. At current prices Telmex investors are paying over \$4,700 per line, investors in Argentina's companies around \$1,500 per line.

Earnings? With projected earnings of around \$600 million in 1992, or \$2.18 a share, Telebrás' price/earnings multiple is 5, versus 14 for Teléfonos de Chile and 12 for Telmex.

Brazil probably cannot resist the tide of history. Even in Latin America, anti-free-market sentiments are fading, and country after country is moving away from socialism. A complete privatization of Telebrás may be years away, but the process seems to be inevitable. In April the country will vote on a new form of government.

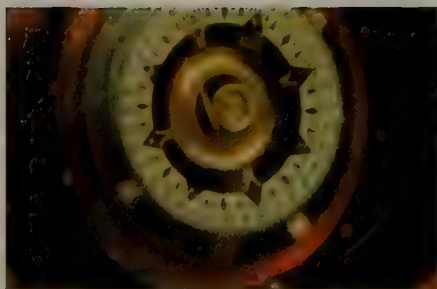
The betting is that this will lead eventually to a free market economy. For the telephone company, that would mean a rationalizing of rates—perhaps raising local rates to as much as \$15 per month, a level that is unlikely to cut demand. At the same time there will be a lowering of long distance rates. With better earnings, Telebrás could eliminate the \$2,000 installation fee, and then demand would surge.

Expect volatility in the meantime. Telebrás ADRs opened trading at \$16 in October, fell to \$10 in mid-November and were recently back up to \$12. For investors with a strong stomach, it might be worth the risk.



Carlos Humberto TDOContact

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Conscience, social ties and self-interest have proven to be better guardians of people's behavior than policemen and governments can ever be.

Of right and wrong

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

WHO WATCHES the watchdogs?

That is the big question raised by the recent \$400 million out-of-court settlement by the accounting firm of Ernst & Young, which federal agencies claimed had not done a good job of auditing some of the shaky financial institutions whose collapse is costing the taxpayers billions.

Because this was an out-of-court settlement, the validity of the charges remains unsubstantiated. Clearly, however, either the auditors or the federal agencies which audited the auditors were wrong. In short, layers upon layers of watchdogs do not guarantee effective monitoring.

The implications reach far beyond accounting, and in fact far beyond the kind of society we live in. One of the big differences between societies is in how they meet the need for monitoring.

Often the most effective monitoring is self-monitoring. That is a major part of the case for private property, for example. Both owner-operators of businesses and private homeowners typically work longer and harder on their private property than is required by any external authorities.

In the criminal law, police are only a

kind of back-up system for those who are not effectively monitored by their own consciences. If the whole notion of right and wrong erodes away, as avant-garde educators seem to wish, the police cannot possibly do the whole job of keeping order. Indeed, the police themselves would have no reason to resist being corrupt.

The self-monitoring of conscience means that even people whose wrongdoing has been successfully concealed from everyone else have been known to return money they owed, to confess to unsolved crimes, and in some cases even to mete out a death penalty by committing suicide for their secret misdeeds.

Self-monitoring is reinforced by mutual monitoring among people with emotional ties to one another. Where the whole family bears the stigma of the individual member's vice, as among the Japanese, the pressures can be enormous to avoid anything that would bring disgrace upon your own flesh and blood.

Similar pressures operate in close-knit communities. Chinese businessmen in various Southeast Asian countries often make deals with one another by verbal agreement, because default would mean social ruin and family disgrace. Hasidic Jews in New York are able to give one another gems to sell on consignment, without the need for legal papers, because their strong social and moral ties are more effective than legal processes would be.

The degree to which such social pressures are effective varies from one group to another and from one society to another. More honest societies can extend more credit, collect taxes more efficiently, create more joint

ventures, use fewer resources for security, and enjoy higher standards of living as a result.

Such invisible, emotional and untidy methods of constraining individual behavior and sustaining human societies have little appeal to intellectuals, who assume a priori that formal institutions are more effective.

All the negative features of informal controls—shame, fear, guilt, stigma—seem like arbitrary impositions to those with a rationalistic vision of man. Collective honor or shame offends their sense of individual justice.

Nothing is easier than to come up with stories—whether in literature or in real life—of someone unjustly stigmatized because of the family or group he belonged to. There is no way to dramatize equally the people who were not robbed, not beaten, or not killed, because of the restraining effects of the same social controls.

Because there are inevitable dilemmas in applying notions of right and wrong, increasing numbers of superficially clever people are for getting rid of both the concepts and the dilemmas they cause. A whole process called "values clarification" pervades the American public schools to do just that, to eradicate such ideas from the minds of children.

All this assumes that monitoring is either unnecessary, or that it can be carried out effectively by formal organizations. But adding layers and layers of monitors, as is necessary in communist societies, for example, is not only costly but often less effective than the self-monitoring of people with a vested interest in their own private property.

Even in the days of Stalinist terror, more and better quality produce came out of a given amount of land in private plots than the same amount of land on collective farms. Self-monitoring by people with a vested interest in their own well-being was more effective than the whole apparatus of a totalitarian police state.

Much of the social history of the 20th century, and especially of the last 30 years in the United States, has been a history of eroding and destroying informal systems of monitoring that worked, replacing them with more rationalistic systems that sounded good.

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Every year we put to a panel of stock pickers this question: Which stock would you buy (or sell short) if you could buy only one? Our bulls beat the market in 1992. On to 1993.

If you could love only one

By Steven Ramos

LAST YEAR in this issue, as we have done for many years, FORBES asked a group of stock analysts to pick just one favorite stock each for 1992. Our seventeen 1992 pickers did well. From mid-December 1991 to mid-December 1992, the 12 bullish contestants' picks rose 45% on average. This soundly beat the Dow industrials, the S&P 500 and the Wilshire

index, all of which gained about 14%.

As a kind of insurance policy last year we also asked five bears to name their pick-just-one favorite short sale. It just wasn't a good year for shorts. The average of the five shorts was up 8%. The short list was at least successful in underperforming the market.

As is our custom, we invited the most successful players back for an-

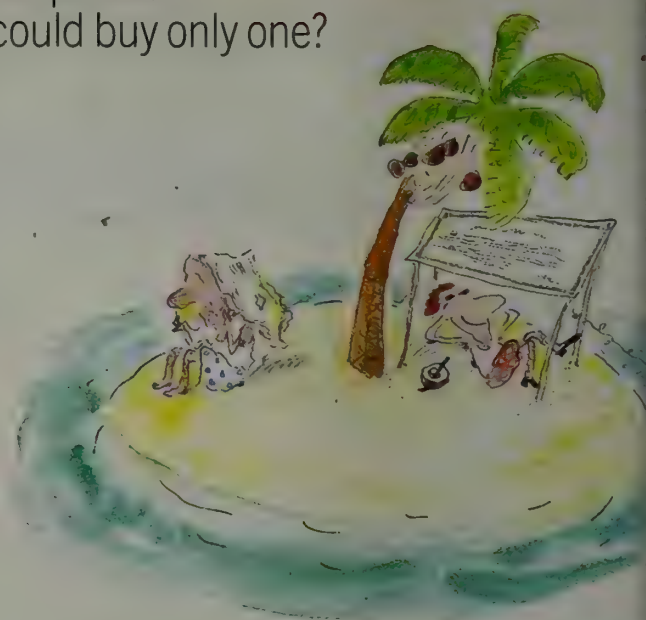
other try, dropping the poor performers and replacing them with fresh faces. Our new list of picks, in the table below, has nine U.S. stocks and three foreign ones to buy, and five stocks to short.

The returning champ is Byron Sanders of Sarasota, Fla.-based Kashner Davidson Securities. Sanders' 1992 pick, LaserSight, which makes lasers used in eye surgery, nearly quadrupled. Sanders isn't straying far with his 1993 selection. Ophthalmic Imaging Systems makes Glaucoma-Scope, a device to detect the onset of glaucoma at an early stage.

Presidio Management's Van Brady is beginning to look like an undiscovered Peter Lynch. He finished first in the 1989 and 1991 horse races. The stock he picked a year ago, EMC, better than tripled. Someone who bought his last four recommendations in succession would have multiplied his money twenty-four-fold.

Brady's favorite for 1993 is another computer-related outfit, Cheyenne Software, which makes software for backing up and restoring files on personal computer network. "They are positioned very well for the major trends in information processing that we see developing for the rest of the decade," he says.

Alan Bond, chief investment officer of Bond, Procope Capital Management of New York, got a double from CML Group, an exercise equipment manufacturer. Bond's new choice is Home Depot—a stock one of last



Smart picks for the new year?

Name/affiliation	Stock	Price
Stocks to buy		
Alison Bisno/Stephens	Taco Cabana	19½
Alan Bond/Bond, Procope Capital Management	Home Depot	64¾
Van Brady/Presidio Management	Cheyenne Software	29¾
Alfred Frank/Prudent Speculator	Sea Containers Ltd	15½
Carlene Murphy/Strong Common Stock Fund	Littelfuse	15¾
Nicholas Reitenbach/Pinnacle Associates	Sandoz	44½
Theodore Rosenberg/Burney	Boeing	34½
Byron Sanders/Kashner Davidson Securities	Ophthalmic Imaging Systems	6¾
Lesa Sroufe/Ragen MacKenzie	Cray Research	22¾
Thomas Tashjian/First Manhattan	Merry-Go-Round Enterprises	16¾
Robert Thomas/Boston Security Counsellors	Alcatel Alsthom ADS	24¾
Elizabeth Tran/Prudential Asia Fund Management	Hutchison Whampoa	17½
Stocks to short		
Stephen Carlson/Aspen Capital Group	Alco International Group	5½
Robert Doviak II/Doviak Partners	Wisconsin Pharmacal	16¼
David Hines/Hines Management	McAfee Associates	17¾
Robert Holmes/Gilford Securities	McDonnell Douglas	45½
Jonathan Merriman/Merriman Capital/Dabney Resnick Asset Mgmt	Eagle Hardware & Garden	25½

Closing prices as of Dec. 11, 1992.

We asked 12 Wall Streeters which stock they'd buy if they could buy only one. Their answers appear above. Five more were asked for overvalued stocks to short.

ear's less successful participants recommended as a short play. Bond says Home Depot still has plenty of room to grow, since this low-cost retailer has but a 6.5% share of the fragmented home improvement market.

Now for some new blood. Theodore Rosenberg, a portfolio manager at Burney Co. in suburban Washington, D.C., is high on Boeing. Why, with the defense budget shrinking and the airlines busy canceling airplane orders? "Boeing is selling as if it were a cyclical when, in fact, it is a growth company," says Rosenberg. It is, after all, among America's leading exporters.

Alison Bisno, director of research at Stephens Inc., in Little Rock, Ark., is choosing Taco Cabana, a Texas-based chain of 57 Mexican restaurants. Bisno likes this firm's freshly prepared food, sit-down dining and reasonable prices. "The Mexican segment is the fastest growing, and it has really become a staple in the U.S. dining scene," says Bisno.

Lesa Sroufe, director of research at Ragen MacKenzie, a Seattle-based brokerage, recommends supercomputer company Cray Research. This former star is trading near a five-year low. Sroufe thinks cost-cutting and new products will prove to be Cray's salvation.

First Manhattan's Thomas Tashjian likes Merry-Go-Round Enterprises. This company has about 1,000 apparel stores that cater to fashion-conscious youngsters (mostly 30 and under). "As shoppers become more confident about the economy, they drift away from basic replenishment of clothing to a more whimsical style," Tashjian says.

From Carlene Murphy, a manager of the Strong Common Stock Fund, we get Littelfuse. "Not many people have heard of it," she says, "but it is the leading worldwide supplier of uses for automobiles and electronic equipment." Littelfuse (sales, \$155 million) was distributed to

bondholders in the bankruptcy reorganization of Tracor. At a recent 16½, it trades at 27 times projected 1993 earnings.

Our returning guru on foreign stocks is Nicholas Reitenbach, director of international investment at Pinnacle Associates. His Hong Kong & China Gas from last year rose 55%. Reitenbach's new favorite is Switzerland-based Sandoz, the drug and chemical company. Reitenbach likes its expanding net profit margin. The American Depositary Receipts trade over-the-counter.

Hutchison Whampoa, a Hong Kong-based container terminal, import and export, and real estate company, is the pick of Elizabeth Tran of Prudential Asia Fund Management in Hong Kong. The stock has been asleep as the Hang Seng has shot up 87% over the last three years. Whampoa is a bargain, Tran says, now that it's moving past its biggest problems, yet is trading at nine times estimated 1993 earnings.

And now for the bears. Two of our contestants from last year are back. Robert Doviak II of Doviak Partners in Dallas scored a bull's-eye with Col-

lege Bound last year. Selling at 21¼ then, the stock is now worthless. This year Doviak says Wisconsin Pharmaceutical, a seller of fishing bait and insect repellent, could be in for some trouble. It has a market capitalization of around \$60 million but sales of only \$13 million. Doviak doubts that the company can be successful with its new venture: female condoms.

David Hines, of Hines Management, the other returning short-seller, is now bearish on McAfee Associates. During the Michelangelo computer virus scare earlier last year, McAfee garnered tons of free publicity for its antiviral software. That helped McAfee's initial public offering. Notwithstanding the equity issue, the company's prospectus "reads like a short-sale recommendation," Hines says, citing new competition and a huge tax liability left by previous owners, among other things.

Eagle Hardware & Garden, the high-flying Seattle-area retailer, is a stock you wish you had shorted a month ago. Never mind, says Jonathan Merriman, partner at Merriman Capital and portfolio manager at Dabney Resnick Asset Management; it's still worth shorting. "Home Depot has Eagle beat on just about all counts," says Merriman. Eagle trades at 25½; Merriman thinks it's worth half that.

Stephen Carlson, a partner of Denver-based Aspen Capital Group, expects trouble at Alco International Group, a shipping and medical products concern that started life as Thoroughbred Horse Co. Carlson points to past legal problems of an Alco insider, a weak balance sheet and a switch in auditing firms.

Robert Holmes, president of Gilford Securities in Chicago, expects a collapse at McDonnell Douglas. "They are drowning in debt and their commercial aircraft business will eventually be shut down," predicts Holmes.

See you next year. ■

The winners won big

Name/affiliation	Stock	% change
Strong bulls		
Byron Sanders/Kashner Davidson Securities	LaserSight	274%
Van Brady/Presidio Management	EMC	227
Alan Bond/Bond, Procope Capital Management	CML Group	113
Nicholas Reitenbach/Pinnacle Associates	Hong Kong & China Gas	55
Carlene Murphy/Strong Common Stock Fund	First Brands	20
John Tauer Jr./Piper, Jaffray & Hopwood	Philip Morris	13
John Granahan/Granahan Investment Management	ConferTech International	-11
Joseph Velli/Bank of New York	Medeva Plc	-12
Judith Aidoo/Aidoo Group	IBM	-30
Mariola Haggard/Kemper Securities Group	Biomet	-33
Jack Shaughnessy/Advest	Lifetime	-37
Nikos Monoyios/Guardian Life Insurance	Plains Resources	-40
Routed bears		
Robert Doviak II/Doviak Partners	College Bound	-100
David Hines/Hines Management	Egghead	-35
Eric Kuby/Rodman Advisory Services	Home Depot	50
Jonathan Epstein/Lehman Brothers	Staples	59
Benjamin Kopin/Lynx Partners	Sequent Computer Systems	67

Closing prices as of Dec. 11, 1992.

Philip Morris didn't go up much and IBM dropped a lot, but overall our stock pickers did well last year. Not so, however, the bears.



AMERICAN
RE-INSURANCE COMPANY

CORPORATE ENVIRONMENTALISM

ILLUSTRATING ENVIRONMENTAL EXCELLENCE

REPORT #4 — CREATING STRATEGIC INITIATIVES



AMERICAN
RE-INSURANCE COMPANY

Dear Reader:

With this report, we conclude our brief on "Corporate Environmentalism."

Six months have passed since American Re-Insurance Company and Forbes Inc. hosted a gathering of top corporate executives and their environmental counterparts from the EPA and the White House. Since that time, we have been overwhelmed with countless examples of corporate environmental excellence and leadership.

In our third report, we asked how we, as a nation, can sustain a reasonable momentum of industrial growth, yet resolve what appears to be a conflict between corporate development and the safe management of our resources and people. Happily, we have found that the two forces — industrial development and environmental stewardship — are not incompatible.

Many of America's largest corporations have already stepped into the breach with strong programs of environmental leadership. Corporate executives have told us that they are as concerned about the environment as they believe consumers are.

The challenges that lie ahead are great. Environmental damage takes its toll on corporate and private pocketbooks as well as the health of both people and companies. Although the EPA says that emissions of lead have fallen 97% in the past 20 years, and carbon dioxide has been reduced by 41%, the agency also projects that compliance with pollution-control regulations will cost taxpayers \$1.6 trillion in this decade.

We are the richest nation on earth, both in resources and the technical expertise to manage them. It is clearly up to us to set a proactive environmental path for the future. The new Administration has pledged to address this issue and to back the creation of new jobs and industries to support corporate environmentalism.

American Re believes that continuing communication among business, consumers and government is key to meeting the environmental challenge. The commitment to create strategic environmental initiatives is, without doubt, in the interest of all Americans. It is for these reasons that we have sponsored this four-part series on Corporate Environmentalism. We are pleased that American industry is working proactively on this important task.

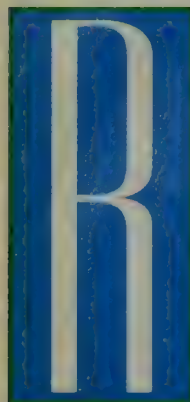
Edward B. Jobe
Chairman & CEO
American Re-Insurance
Company



Paul H. Inderbitzin
Vice Chairman & President
American Re-Insurance
Company



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RECOGNITION OF environmental responsibility is not a passing fad. As we have witnessed in recent months, its evolution — or perhaps, revolution — continues to gain momentum in the consciousness of our national culture. Media coverage has brought the challenge into front-page focus and many Americans say they are not willing

to trade environmental performance for economic growth. They are now demanding both.

This trend has not been lost on America's corporations. Many companies are swiftly exceeding regulatory compliance and breaking new ground with innovative approaches to making environmental management a top priority. For some, this means developing new systems of waste removal and recycling. For others, it means cleaning up their community waterways and improving air pollution controls. For still others, it means developing packaging that will virtually "disappear" along with the products it contains.

We are making progress. Ocean dumping of industrial waste has decreased some 24% in the last 10 years. Inadequate sewage treatment has decreased 20%.

At the same time, companies are reluctant to claim credit for exceeding their own environmental mandates, rightly believing that it is dangerous to champion their performance to the outside world without first having their positions clearly understood and followed by everyone in their employ.

STRONG INITIATIVES CAN REAP REWARDS

Many of America's corporations have built solid reputations for solving complex problems with advanced technology and sophisticated engineering. As the need increases for companies to assume greater responsibility for environmental performance, some are using the same innovative thinking and technical expertise to find solutions to these challenges. The Northrop Corporation is on the leading edge of this proactive quest.

Kent Kresa, Northrop's chairman, president and chief executive officer, says, "We have adopted an aggressive



Kent Kresa
Chairman, President
and CEO,
Northrop Corp.

approach to environmental management that goes beyond simply reacting and complying with ever-changing regulations. Businesses that take this initiative can gain the competitive advantage that comes from having greater control of their own destinies. This approach has not only dramatically reduced our emissions, but saved the company millions of dollars in operational costs."

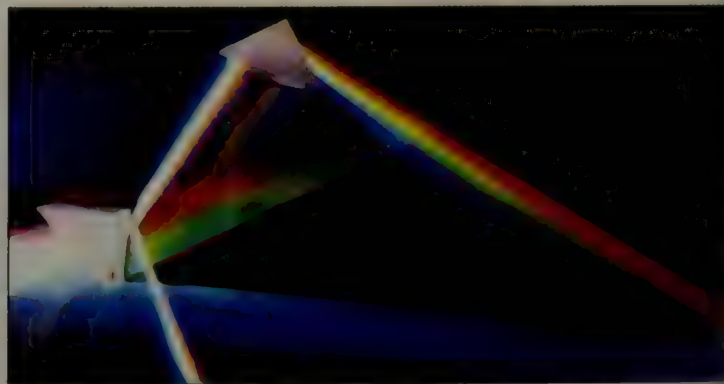
Northrop developed a long-range environmental plan, under which it set forth a commitment to reduce hazardous wastes. As part of the plan's implementation, the company made a strategic decision to communicate to its employees that creating a better environment was to be a personal as well as a corporate objective.

The company goal is to reduce its 1989 waste stream 90% by the end of 1996. The success of the program depends largely on reducing pollution at the source and finding new methods for manufacturing the company's products using newly designed, environmentally safe processes and chemicals. By mid-1992, Northrop was ahead of schedule, already achieving a 63% reduction.

Northrop now extends the useful life of manufacturing chemicals by removing impurities through centrifugation, microseparation and ultrafiltration. Chemicals in the company's photo labs have been eliminated through conversion to an electronic photographic process. Additionally, many product parts are now cleaned with water-based agents instead of solvents that contribute to smog or deplete the ozone layer.

As Kresa notes, "Our hazardous waste reduction accomplishments have saved the company more than \$20 million in two and a half years. By the year 2000, we expect the cumulative savings to surpass \$150 million."

By encouraging environmental stewardship among employees, the same talent that makes Northrop's advanced technology work for America's defense has been mobilized to develop programs that move beyond regulatory compliance. Northrop believes company-wide awareness and understanding, coupled with real programs for waste reduction, will help sustain our ecosystem for coming generations.





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EMPLOYEE AWARENESS STIMULATES POLLUTION PREVENTION

In this environmental revolution, companies can either choose to come up to the plate with a strong bat, or wait until they're called out on strikes. American industry has, with some justification, been regarded as a source of many environmental woes. But industry also is responsible for investing billions of dollars in pollution controls and solutions leading to significant environmental improvement. Increasingly, industry's philosophy is to shift its waste management strategy from "end-of-the-pipe" clean-up and treatment to programs on up-front pollution avoidance.

In April 1991, Ashland Oil Inc. became one of the first companies to participate in the EPA's national, voluntary Industrial Toxics Project (ITP). The program established voluntary goals for 11,000 industrial facilities throughout the country, aiming to reduce 17 targeted chemicals one-third by 1992 and one-half by 1995.

Robert E. Yancey, Jr., president of Ashland Petroleum, says, "Even though our company's facilities are and have been in compliance with current emissions control regulations, of the 17 chemicals targeted by ITP, 11 are associated with Ashland's chemical and petroleum refining operations. We estimated that the cost of achieving the reduction would be between \$15 million and \$20 million."



Ashland's program involves two of its subsidiaries: Ashland Petroleum Company's refineries in Catlettsburg, Kentucky; Canton, Ohio; and St. Paul Park, Minnesota; and 14 Ashland Chemical

manufacturing facilities throughout the country. As Yancey reports, "Ashland not only met the first ITP goal, but did so a year early. Our program resulted in reducing certain chemical emissions from operations by 7% between 1988 and 1991. We are proud of that accomplishment, and we are well on our way toward reaching our 1995 goal in advance of that deadline."

Ashland Petroleum's initiatives included improving inspection and maintenance of operations to reduce fugitive emissions, installing storage tank vapor controls and eliminating the use of chromium and lead.

"We credit our employees for this success," says Yancey. They have identified and implemented programs that

allow the company to exceed emissions reduction goals without compromising product quality or operational efficiency. We realize this is a job that never will be finished. We also realize that, in many ways, the job is just beginning. But we are pleased that we have come a long way in such a short time."

SPEARHEADING "RESPONSIBLE CARE"

The nation's largest chemical manufacturers have, as a group, recently become part of the most comprehensive voluntary environmental improvement effort ever undertaken in this country: the Chemical Manufacturers Association's (CMA) Responsible Care® program. This is an industry-wide commitment to improve performance in health, safety and environmental protection.

One standard of Responsible Care is a Pollution Prevention Code, designed to address the number one



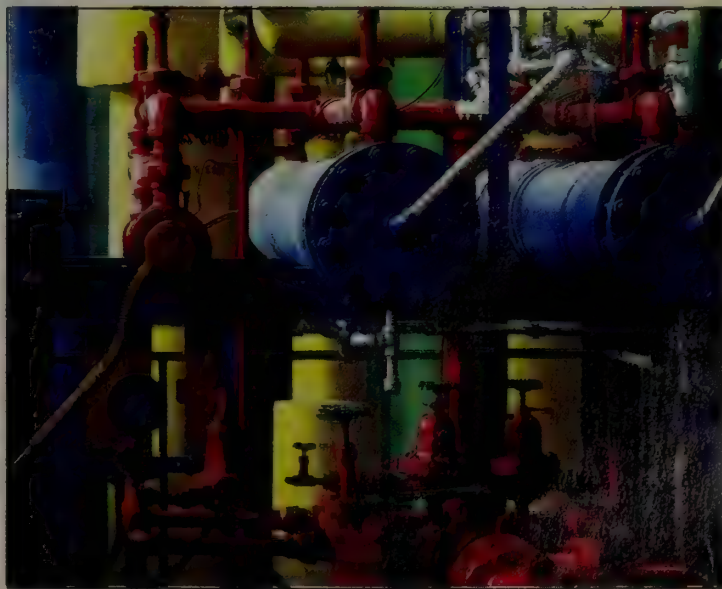
J.L. Wilson
Chairman and CEO
Rohm and Haas
Company

problem cited by the public — the amount of waste this industry generates. As J.L. Wilson, chairman and chief executive officer at Rohm and Haas, says, "It challenges us to design pollution out of the process, rather than relying on pollution controls."

"This is a philosophy that makes good business sense, because as wastes decrease, quality and efficiency improve. At Rohm and Haas, we have made progress on reducing the amount

of waste we generate, and we are confident that we will meet our goal of 25% process-waste reduction by 1996." Indeed, at the company's Tennessee plant, the first phase of a pollution prevention effort has reduced annual polymer waste from 400,000 pounds to just 8,000 pounds.

In 1991, using a total quality approach, the company discovered that a tank truck loading facility in Knoxville was a major contributor to waste generation. Fifteen products were being loaded through four "shared" pumps, fil-





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ters and loading lines. Every time a different product was shipped, workers had to flush the system; in the process, waste was generated. A plant-wide team designed a new system, featuring a dedicated pump, filter and loading line for each of the products. As a result, the need for flushing and the resulting waste were eliminated.

As Wilson reports, "Waste reduction was not the only benefit. We've improved quality by eliminating the possibility of cross-mixing during shipping, dramatically reduced the potential for spills and created a safer and cleaner workplace in the process."

The Knoxville lesson illustrates the symbiotic relationship among waste reduction, increased efficiency, higher quality and safety. It is a lesson that Rohm and Haas, like others, continues to learn as the industry extends its search for new ways to achieve pollution prevention.

Wilson says, "We are but one of many CMA companies involved in this effort, and I am convinced the industry is poised for even more dramatic results in the years ahead."

CFC ALTERNATIVES CREATE JOBS AND PROTECT THE ENVIRONMENT

Most people are aware that the breakdown of chlorofluorocarbons (CFCs) in the upper atmosphere may damage the earth's ozone layer. CFCs are used by many industries, small businesses such as supermarkets, refrigeration delivery trucks and in important medical applications. The challenge has been to develop an effective alternative to CFCs.



Robin E. Gadsby
President
ICI Chemicals and
Polymers

ICI, one of the largest chemical companies in the world, spent \$200 million and employed more than 300 research scientists and engineers to construct new facilities to produce ICI's family of CFC alternatives. The town of St. Gabriel, Louisiana is now the location

of a \$100 million world-class facility producing an ozone-benign alternative to CFCs called KLEA®134a. When fully operational, the plant will employ more than 100 people at the site and in local support industries.

Because of the positive impact created by the KLEA family of CFC alternatives, ICI recently won the EPA's "Stratospheric Ozone Protection Award." In addition to developing new CFC alternatives, ICI has taken a leadership role in the recovery and reclamation of CFC-based products currently being used.

Robin Gadsby, president of ICI Chemical and Polymers, says, "Our company, in total support of the Montreal Protocol to protect stratospheric ozone, is making significant contributions to resolving the CFC issue by developing effective alternatives. We believe our efforts will help sustain economic growth, while protecting the earth for future generations."

ENVIRONMENTALISM MAKES GOOD BUSINESS SENSE

Many of this nation's leading corporations know that proactive environmental management is not only good for the country, but also makes good business sense. One such company is Merck & Co., Inc., the world's largest prescription drug company.



Dorothy Bowers
V.P. Environmental
and Safety Policy
Merck & Co., Inc.

Merck's environmental goals, which include a 90% reduction in worldwide releases of toxic chemicals by the end of 1995, are among the industry's most ambitious. In particular, Merck's development of the antibiotic PRIMAXIN® demonstrates that innovative, voluntary solutions to environmental challenges can also boost productivity and stimulate profits.

Dorothy Bowers, Merck's vice president of environmental and safety policy, says, "When Merck designs a manufacturing process for a new medicine, environmental impact is one of several factors that drive process design. Producing highly specific pharmaceutical molecules often requires an involved series of intermediate and purification steps to achieve a precise chemical structure. In most cases, each reaction leaves behind unwanted by-products and unreacted materials."

Each of these wastes includes two costs: the cost of treatment or disposal, and the cost of reactants that do not become product. Reducing waste, therefore, becomes solid business practice as well as solid environmental practice. Merck's solution is to attack waste at the process development level to avoid exceedingly costly and complex equipment installations.

The initially proposed 18-step manufacturing process for PRIMAXIN would have created one ton of waste for every pound of product. While still in the development lab, however, Merck's chemists and engineers found a way to eliminate 500,000 gallons of toxic waste annually. After production began, Merck continued to improve the process by eliminating a mixture that prevented solvents





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MANAGING TODAY'S RISKS TO BUILD A BETTER TOMORROW

Risk assessment and risk management dominate many discussions on the environment. Although the terms may sound new, the concepts have long been part of the insurance business.

In 1917, American Re-Insurance Company was founded by seven coal-mining families that desperately needed workers' compensation coverage. They pooled \$150,000 to form the first U.S. reinsurer funded with American capital. To manage risks successfully, the young company hired special engineers who understood mining hazards such as cave-ins and explosions. These engineers were eventually given unusual powers by the mine owners: American Re could actually shut down production if conditions became dangerous. This successful approach to risk management was truly market-driven and voluntary.

Building an understanding between those who share risks is fundamental to managing risk. C.H. Miller, American Re's first president, expressed this commitment to consensus-building when he said, "Connections are made only after long consideration and careful examination on both sides."

This same philosophy is echoed by American Re's current president, Paul H. Inderbitzin: "Our approach to solving difficult problems is to bring together different views and sources of expertise in order to understand common objectives."

Today, AM-RE SERVICES INC. is working with insurers and their clients to prevent pollution by introducing innovative environmental technologies into global markets. In addition, AM-RE MANAGERS INC. provides products and services to help increase a company's capacity to deal with pollution liabilities.

This proactive approach builds on a firm foundation of established business relationships that have been forged by time, experience and trust. American Re has worked with its longtime clients to provide creative solutions for pollution exposure.



antibiotics. As Bowers reports, "Merck's production of PRIMAXIN illustrates how industry can use innovative technologies to protect the environment and boost productivity. Through similar aggressive, voluntary initiatives, industry can help balance America's environmental aspirations with our economic and social goals."

GETTING THE WORD OUT

Billions of dollars are spent every year in the pursuit of sustainable development — enhancing economic growth while maintaining high environmental standards. Regrettably, there is a lack of clear and simple communication of the progress being made, as well as the strong environmental and economic benefits derived. It is important that we all come to realize the essential role corporate environmentalism plays in creating sustainable development.

Corporate behavior is changing. Management teams are moving solidly toward environmental surety, and their employees are coming on board. New environmental industries are blossoming, and new jobs are being created. The simple fact is that many in corporate America are undertaking voluntary efforts that not only meet, but go beyond compliance to reduce pollution and minimize wastes. This is a trend that will continue as we move forward into the next century.

American Re is proud to continue its support of the executive dialogue and media coverage of environmental excellence. Although this concludes our series on Corporate Environmentalism, we view this as merely the beginning.

from being reused, developing an innovative extractive hydrolysis technology that improved yield and reduced use of another solvent, and installing solvent recovery capability.

Even though these improvements dramatically cut initial production wastes, Merck recently installed a revolutionary new process chemistry that further reduces the number of steps, improves yield and totally eliminates a toxic solvent. Although this alternative chemistry cost millions of dollars to install, it provides immediate environmental benefits and generates long-term savings as well.

Today, PRIMAXIN is among the world's best-selling

Brace yourselves. It's time
for Ted Turner to take another leap.

What new worlds to conquer?

By Subrata N. Chakravarty

TOM JOHNSON'S first day on the job was total immersion. The newly hired president of Turner Broadcasting System, Inc.'s Cable News Network arrived in Atlanta shortly after midnight on Aug. 1, 1990. After checking into his hotel, the former publisher of the *Los Angeles Times* and vice chairman of Times Mirror Corp. went over to CNN's newsroom to introduce himself. Less than 24 hours later, Saddam Hussein's army invaded Kuwait. "I thought I would have an extended orientation period," Johnson now says. "I had one day."

Extended orientation periods aren't CNN's style anyhow. From its inception, the cable network has always been tightly staffed, with everyone pitching in when needed, regardless of rank or function. Once mockingly referred to by broadcast news types as the "Chicken Noodle Network," CNN established itself during the Gulf crisis as the premier news organization in the nation and, possibly, the world. In August 1991 CNN cemented its position when its coverage of Russian President Boris Yeltsin's defiant speech atop a tank in Moscow may well have played a large role in foiling the coup attempt against Soviet President Mikhail Gorbachev.

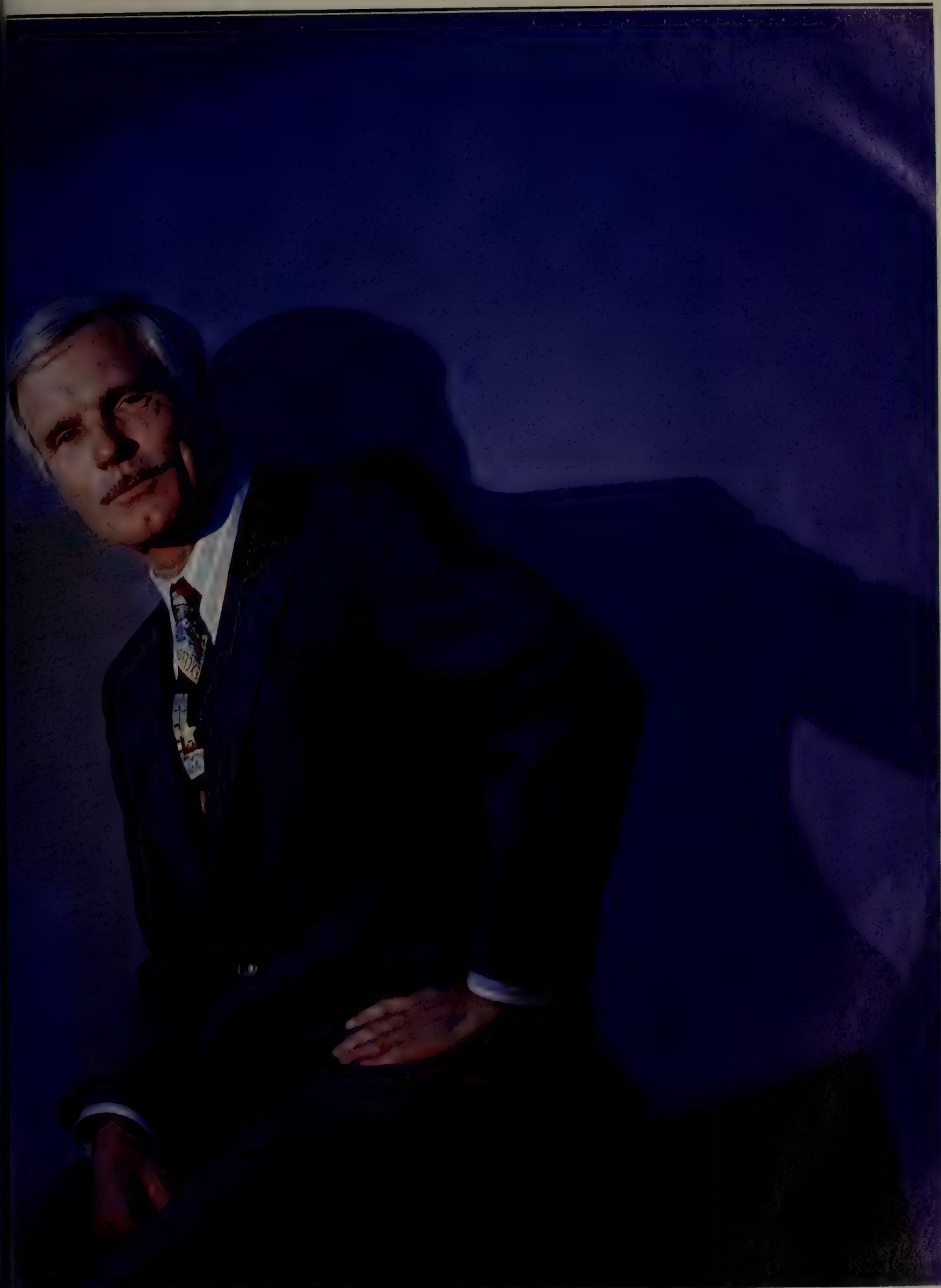
In the first stages it's not always easy to distinguish a visionary from a clown. In his early days as a national figure, TBS founder Robert E. (Ted) Turner III was often derided for his bombastic ambitions. He was, cynically,

Turner
Broadcasting
Chief Executive
Ted Turner

**Some who know
him well have
lately detected a
spark in his eye
that suggests
he's looking
for another
mountain to
climb.**

■

ARTHUR J. SUTHERLAND



called "the Mouth of the South"—and worse. But nobody calls Ted Turner a clown today. Consider the achievements of Turner Broadcasting and its feisty chairman in the past three years:

- TBS raised \$580 million in equity by the conversion of preferred stock and the issuing of new equity.

- Its noncallable junk debt now trades at a premium, while the rest of the debt carries a blended rate of 8.9%. TBS has in excess of \$600 million in unused credit lines, as well as more than \$75 million in cash. Interest coverage is a comfortable 2½ times interest expense.

- Cash flow from operations (after interest payments) has increased sharply, to an estimated \$305 million in 1992.

- For the first time since 1985, the company showed book net income in 1990. In 1992 net income is estimated at \$105 million on revenues of \$1.7 billion, more than double the revenues of 1988.

- Turner Network Television, the network Turner launched in late 1988, broke even in its first full year of operation; it became the company's biggest revenue producer in 1991, with revenues of almost \$370 million. It now reaches nearly 95% of U.S. homes equipped for cable.

- In 1991 CNN alone earned more than any of the broadcast networks, let alone their news divisions.

- For the first time since 1975, TBS declared a dividend in 1992.

- In December 1991 Turner purchased Hanna-Barbera and gained control of its huge library of cartoons as well as its production company. In 1992 TBS inaugurated its fifth network, the Cartoon Network.

- TBS had positive stockholders' equity in 1992 for the first time since 1985; as recently as 1990, TBS' liabilities exceeded the book value of the assets by close to \$500 million.

- Despite widespread belief that his ambitions had cost so much that he



Turner Broadcasting's Terence McGuirk, Tom Johnson and Scott Sassa

Managing TBS in Ted Turner's considerable shadow.

had lost control, Ted Turner still has a voting majority of TBS stock, although the cable system operators who sit on his board have veto power, if they choose to exercise it, on new, unbudgeted projects.

"Turner Broadcasting has really been transformed from an entrepreneurially led, very heavily leveraged, modestly profitable programmer to a world-class media company with tremendous financial strength," says media analyst Dennis Leibowitz of Donaldson, Lufkin & Jenrette.

The years of working hard and playing harder have taken their toll on Turner, who looks older than he is. "I've been through a lot of campaigns," sighs the military school graduate. "I'm only 54, but I've already got the mileage of a 150-year-old man. I'm like a New York City taxicab that has three drivers driving 24 hours a day, seven days a week."

But Turner is less fragile than those New York City taxis. "I'm still pretty tough," he insists, caressing a Russian swordstick from his collection of military memorabilia. "I'm still building this company. I haven't done everything I want to do."

He's certainly done a lot. Of all his creations, CNN, perhaps deservedly, gets the most publicity. It has demonstrated that it is possible to produce around-the-clock coverage of the news on a tight budget and still make a handsome profit. At CNN it is the news rather than the news reader that is the star of the show. Whereas at the other TV networks the carefully coiffed and clad anchors often over-

whelm the news, they seldom do at CNN. While CNN's election night coverage in November was pedestrian, it was also competent, professional and typically exhaustive. The broadcast networks kept turning for analysis to their news stars in their studios—as though the poor slobbs watching out there couldn't figure things out for themselves. CNN had re-

porters around the country covering key races.

CNN offers news in the raw—all the facts that come in, undigested and often without perspective or context. It is up to the viewer to supply those. It is an approach that has sometimes brought heavy criticism on the network for failing to cheer for our side. During the Gulf war, for example, both the U.S. and Iraq used interviews with CNN to send messages to each other without having to come face-to-face. This cold evenhandedness on the network's part, when American lives were at risk in the desert, did not sit well with lots of people, but it did strengthen CNN's reputation for objectivity—whatever that means.

Superstation WTBS, which many expected to fade, remains the top-rated cable channel, with its blend of movies, documentaries and sports. TNT—which programs mainly old movies (from the MGM library Turner purchased in 1986), original films and sports—now ranks third among cable viewers, while CNN ranks fifth.

Even sports has turned profitable thanks to the unlikely performance of Turner's Atlanta Braves baseball team. Turner originally purchased the Braves, along with 96% of the Atlanta Hawks basketball team, as a source of inexpensive programming for WTBS. Their performance was less important than the fact that they filled the hours. In the division cellar in 1990, the sad sack Braves surged to the top of the National League in 1991 and 1992 before succumbing in the World Se-

ries both years. The Hawks, meanwhile, have made it into the basketball playoffs for several years, although they have yet to get very far. But performance has paid off. The improved records of both teams increased viewer interest, which has helped advertising sales on WTBS as well as ticket and concession sales.

What new worlds for Ted Turner to conquer?

A key element in Ted Turner's success has been his insistence on owning as much programming as possible. It is the reason he bought the sports teams, the reason he went way out on a limb to buy the MGM library, and why he snapped up Hanna-Barbera when financier Carl Lindner ran into financial trouble in 1991. "We control more of our own software than any other programming entity in the world," says Turner with satisfaction.

Look for him to push deeper into producing the entertainment his outlets use. As an owner of program-

ming, Turner is a bit like the meatpackers of old: Because he owns many different outlets, he can use the same programming in many different ways. He also uses each of his networks to cross-promote the others.

"We're really in the business of remarketing product," explains Scott Sassa, president of Turner Entertainment Group. "We buy as much software as we can, and find as many ways to get it out there." Thus MGM movies play on both WTBS and TNT. Turner Home Entertainment sells both colorized and black-and-white versions of classic old films like *Yankee Doodle Dandy* and *Forty Second Street*. Hanna-Barbera cartoons can be shown on the Cartoon Network as well as on Turner's other networks. TBS can license toys based on such characters as Yogi Bear and the Jetsons. CNN's Gulf war coverage was also marketed in a book. And all of the programs can be syndicated in other markets like Europe and Asia.

To better use the huge volume of

reports churned out by CNN each day, TBS is testing specially tailored packages for airports, supermarket check-out counters, schools, airlines, even McDonald's. Turner likens TBS' approach to chicken farming: "Modern chicken farmers, they grind up the feet to make fertilizer, they grind up the intestines to make dog food. The feathers go into pillows. Even the chicken manure they make into fertilizer. They use every bit of the chicken. Well, that's what we try to do over here with the television products, is use everything to its fullest extent."

The trick will be to produce yet more products from the same chickens. U.S. growth from TBS' established channels is bound to slow as they approach market saturation. Some 65% of U.S. television households currently receive cable, and TBS' three principal networks—CNN, WTBS and TNT—already reach between 94% and 97% of those homes, so their growth potential is limited to increased penetration and fees.



CNN uses eight satellites to get news in and out, including four of the most powerful ringing the earth: Astra, Palapa, Arabsat and Superbird. The "footprints" of the satellites cover most of the world, allowing CNN to reach virtually everywhere.



CNN's anchor desk on election night, 1992

The news, rather than the news reader, is the star.

TBS can grow by adding new channels. "The one thing we do here is start new networks, build new networks and market them," says TBS Executive Vice President Terence McGuirk.

TBS has shown that ability repeatedly, most recently with the creation of TNT in 1988 and the Cartoon Network in 1992. The opportunity exists to further segment the market with

new networks. McGuirk points out, for example, that only about 1,000 of TBS' library of over 3,700 films have ever been shown on WTBS or TNT. While many of the rest are duds, some have special appeal for limited audiences. TBS could start one or more "mini-pay channels"—low-priced pay channels—to cater to people who are interested in such films as *The Sea of Grass*, an obscure western that has

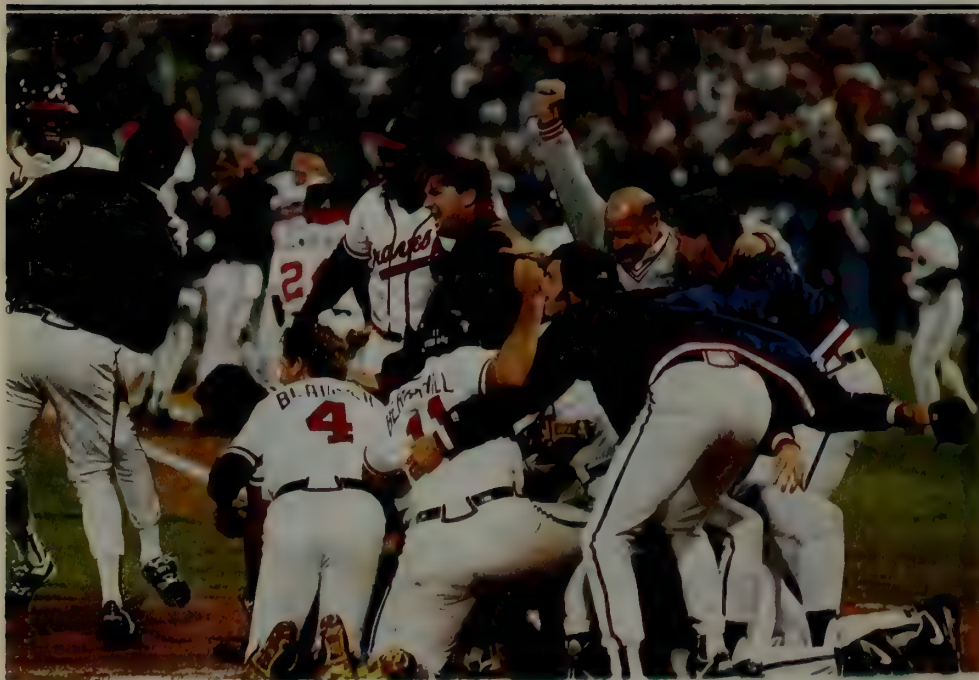
the distinction of being the second film in which Spencer Tracy and Katharine Hepburn starred together.

The cable operators are not entirely happy with TBS' rolling out new networks. With the number of channels constrained at present and cable regulation in the cards, cable operators are not eager to see new channels started or to have so many owned by a single company. There were complaints from some cable system operators on the board when TBS started the Cartoon Network, in part because of Turner's reliance on cross-promoting his networks. But in the end the cable operators went along, chiefly because they need Turner as much as Turner needs them.

The real growth opportunities for Turner Broadcasting lie overseas. The potential outside the U.S. is enormous, and TBS is emerging as the world's first truly global media company. CNN International is already shown in hotels around the world. CNN's Gulf war coverage won it great credibility. Turner is near fanatical about spreading CNN around the world. He explains why in his typically apocalyptic prose: "Back in the Dark Ages, only the Church and politicians had knowledge, and the people were kept in the dark. Information is power. I see CNN as the democratization of information."

CNN's signal now covers most of the globe (see map, p. 85). It already has 58 million overseas subscribers, compared with 60 million in the U.S., but that is barely scratching the surface. As CNN spreads around the world, however, its biggest challenge is to smooth out the spikes in viewership. All the world will turn to CNN for news during a war or during the U.S. elections. But viewers in Korea, say, or Lebanon care little about attempted murder by a teenager on Long Island or snow in Minneapolis.

CNN President Tom Johnson acknowledges the problem. "The criticism that CNN has been primarily a U.S.-based network with a U.S.-based content and focus is an absolutely valid criticism," he says. "We are reaching out to internationalize this network as aggressively as we know how." CNN now has 28 international bureaus, adding Rio de Janeiro, New Delhi, Oman and Bangkok in



The Atlanta Braves celebrating their National League championship, 1992

From perennial losers to near world champions, two years in a row.

1992 alone. The network has a joint venture in Moscow for a Russian-language broadcast and is exploring a German-language channel, with perhaps Japanese and other languages to follow.

Perhaps most important, however, is the plan to regionalize the news. Increasingly, CNN plans to add more regional news to its international broadcasts, so that each geographic area gets more information that is of interest locally. Johnson predicts that the eventual mix for CNN around the world will be only 30% U.S. news.

Taking the entertainment networks overseas offers even more opportunity for TBS. That task will fall to Sassa. Just 33, Sassa has had a remarkable rise. "My family is basically all gardeners," says Sassa, a Japanese-American whose family was interned during World War II. Sassa's start in show business is a Hollywood cliché: He began in the mailroom of the public relations firm Rogers & Cowen, making \$150 a week. After a brief stint at TBS, he went to work for Hugh Hefner at Playboy. He then helped write the business plan for the Fox television network. Returning to TBS in 1988, Sassa managed the hugely successful launch of TNT. In 1992 he probably earned over \$500,000 in salary, bonuses and options.

Under Sassa, TNT moved to Latin America in 1991. That operation is an experiment in how to internationalize. Some films have been dubbed in Spanish and Portuguese, while others have subtitles. In its second year, the network is already profitable, Turner says. Next on the agenda is Europe, which has more languages. Further in the future is Asia, where the language problem is even more complex. Ultimately, however, Turner has no doubt that Turner Broadcasting's networks will be as well known abroad as they are in the U.S. "Cartoons travel and American movies travel," he says simply. *Tom & Jerry: The Movie*, TBS' first theatrical film, was released first in Europe last year.

All these opportunities add up to

significant growth for TBS in the years to come. Sanford Bernstein's media analyst, Tom Wolzien, estimates that by 1996 TBS should more than triple its earnings, to close to \$335 million—\$1.25 a share—a compound growth rate of over 30% from 1991. The value of its networks and other assets, he conservatively estimates, is currently around \$5 billion (net of debt) and will more than double to nearly \$11 billion by 1996.



Hanna-Barbera characters and colorized still from "Casablanca"
TBS' invaluable strength: owning its huge library.

But much of this growth will consist chiefly of creating extensions of what TBS already does. No one who knows Ted Turner really thinks that this is exciting enough to satisfy him. One of his mottoes, emblazoned in signs scattered around his office, is "Lead, follow, or get out of the way," and Turner has always been a leader. But nobody—perhaps not even

Turner himself—knows where he will lead next and where his associates will be expected to follow. "His vision and the guts to stick to the vision drive the company," says McGuirk, who is functionally TBS' chief operating officer.

Though he is without any doubt the driving spirit behind the business, Ted Turner has always left the execution of his ideas to others, while pursuing outside interests from the environment to global peace. "I've always been good at delegating authority," Turner says. "I'm letting more of the decisions be made now because we're in so many more areas."

Which is why many around Turner are asking: What next? The overseas expansion is mostly the sort of thing he has always delegated. "The line extension of all of our brands, that's a no-brainer," says Sassa. "It's basically getting on satellites and getting out there and distributing the service. It's really just blocking and tackling, the basics of distribution."

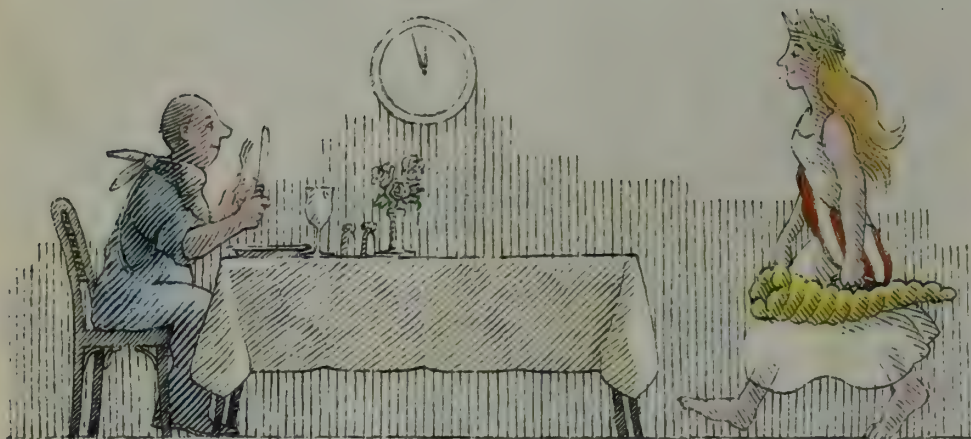
Ted Turner is not, and has never been, a "no-brainer, basic blocking and tackling" entrepreneur. "The worst sin, the ultimate sin for me, in anything, is to be bored," Turner says. While denying any boredom with the company he has built, the fact is that he's spending only three or four days a month at TBS headquarters in Atlanta these days.

Turner, whose grandfather and father lost most of what they had during their lifetimes, has himself always thrived by risking everything. Recently, some who know him well have detected a spark in his eye that suggests he is ready to throw the dice again. Where? What? How? We haven't a clue—and neither do his associates. Ted Turner himself may not have made up his mind. What we can predict without fear of future embarrassment is that his next move will be as bold as it will be unexpected. Ted Turner may be a bit beaten up, but he is a long way from being ready to rest on his laurels. However he may have changed, he hasn't really mellowed.

Labor law will offer a test of just how beholden Bill Clinton is to his trade union PACists.

Union rules

By David Frum



Chas B. Sackman

IT'S BEEN a hungry 12 years for labor unions, and they're slaving for Chef Clinton's cooking. It should be on the table soon. By August, three of the five members on the National Labor Relations Board will probably be Clinton appointees. And by November, so will its powerful general counsel.

A feast for organized labor? Clinton's NLRB picks will tell.

The NLRB enforces the National Labor Relations Act (NLRA), the law that governs most nonagricultural workplaces. Traditionally, three of its members belonged to the majority political party; two have been minority-party members or independents. Unlike Washington's other administrative agencies, the NLRB does not spend much time on broad rule making. Instead, it has seen its job as judging whether the actions of individual unions and managements are unfair labor practices prohibited by the NLRA. Its decisions can be appealed to the federal courts.

President Bush's NLRB, under the chairmanship of James Stephens, has already retreated from some of the tough precedents set by President Reagan's under Donald Dotson. In

the Otis Elevator case of 1984, for instance, the Dotson NLRB set a very permissive standard for the information a company closing a plant must disclose to its workers. Under the Stephens NLRB that standard has become effectively stricter, forcing companies to disclose more.

The first important decision that the Clinton NLRB will face is what to do about the so-called quality circles and worker self-management teams that have sprung up in American factories over the past 20 years.

These circles and teams are a borrowed Japanese idea: small groups of employees who meet continually with management to rethink how products should be made and how their workplace should be organized. All very up-to-date and empowering, but there's one problem: The NLRA, a statute largely written in the days of wrenches and blast furnaces, can be read as outlawing these groups.

Among other things, the NLRA prohibits the "company unions" that management often imposed on labor in the 1920s. The NLRA makes it an unfair labor practice to form employer-dominated labor organizations,

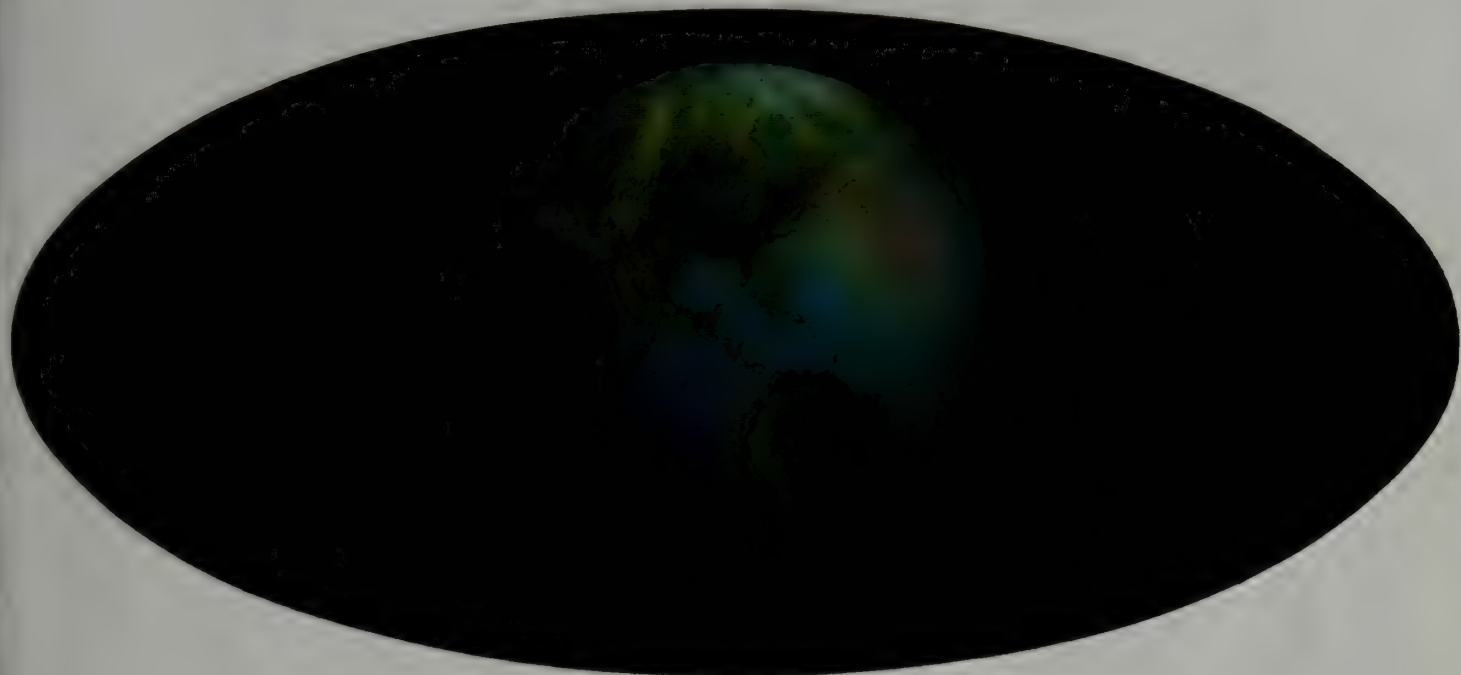
and according to the criteria laid down by the statute, quality circles and self-management teams do seem to meet the ban.

It's hard to believe that any but the most moss-backed union would want that to happen. But what the AFL-CIO does want, and wants right away, is the withdrawal of three executive orders signed by President Bush. One such order implements the Supreme Court's 1988 Beck decision, which gives some employees the option to have any of their union dues used for political action refunded. A second frees contractors rebuilding Hurricane Andrew ravaged areas from the pro-union Davis-Bacon Act. A third outlaws "project agreements"—deals to exclude nonunion contractors from major federally funded public infrastructure jobs.

Presumably those who run the trade unions will expect Clinton, at the very least, to deliver to them on these three points in return for their support and money in November.

The AFL-CIO's next course must be served by Congress. The unions want Congress to forbid the use of replacement workers for strikers during labor disputes. It is likely President-elect Clinton will sign such legislation. Unions want the NLRA amended to make it easier for them to sign up new members, along the lines of new labor codes in the Canadian provinces of British Columbia and Ontario, which eliminate secret ballots before union certification. And they want the repeal of Section 14(b) of the act, which permits states to adopt right-to-work legislation—as the state of Arkansas has—thus enabling employees to take jobs in unionized workplaces without being forced to join the union.

American unions often talk as if the NLRB is mainly to blame for the shrinkage in their membership, to just 12% of the private-sector wage and salary workers, and the decline of their power and influence. But if, as Clinton's Secretary of Labor designate Robert Reich seems to think, it is structural change in the American and global economies that is weakening private-sector unions, then union-sponsored labor law reform will do Clinton's supporters in the AFL-CIO little good—and could do American business considerable harm.



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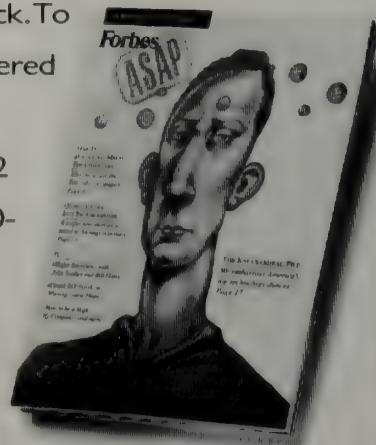
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FORBES ASAP. WHERE TECHNOLOGY GETS DOWN TO BUSINESS.

Don't let reports of currency trading scandals put you off: In the age of unstable currencies and global trading, failure to hedge can have serious consequences.

To hedge or not to hedge

BY ANDREW J. KRIEGER



Andrew J. Krieger is managing director of KB Currency Advisors, Inc., a foreign exchange investment management and hedging/advisory firm based in Englewood Cliffs, N.J. He is author of *The Money Bazaar*.

THAT MUCH publicized affair of Dell Computer's alleged speculative foreign exchange activities raises a question that concerns all business people in this era of global business dealings. The question is: How can a firm responsibly manage its foreign currency exposures?

This question is particularly timely given the fact that since 1985, U.S.-based corporations that sell overseas in local currency have enjoyed a financial windfall: Their profits generated abroad have translated into more U.S. dollars, as the dollar declined against most major currencies. By largely ignoring the currency markets, these corporations reaped tremendous benefits that accrued to their bottom line. They just sat there and enjoyed the extra dividend.

But that's over. Since the end of August the dollar has climbed some 15% against the major European currencies, forcing public and private companies alike to reconsider their policies of benign neglect of currency

fluctuations. If they had just sat there, the strong dollar would have cut into their reported overseas earnings.

Unfortunately, stories such as Dell's augment the myth that the currency markets are inherently risky, incapable of being successfully and conservatively managed. But this is a wrong and dangerous conclusion. Properly managing your currency exposure does not involve gambling or speculation. In fact, the ideal currency program defines and controls risk so thoroughly that strategy and planning decisions become enormously more informed. Here are some thoughts on how to implement a responsible program and prevent the hedging function from running amok.

First of all, don't get carried away. Beware of corporate currency seduction, a potentially painful disease. Symptoms of this disease include the installation of super fancy trading and communication systems, a Wall Street suspenders-type dress code and endless ringing of phone lines from bank salespeople alerting you to the latest major market transactions.

A company's treasury is not, nor should it become, a bank dealing room, operating as an equal to institutions that make markets in currencies for a living. While bank advice can at times be useful, please keep in mind that no matter how well meaning, salespeople are paid for executing customer transactions. They would prefer to see more trades from you rather than fewer.

Remember that most bank traders have a short-term time horizon when it comes to trading decisions, primarily because they make money by managing the numerous customer flows

that they see on a minute-to-minute basis every day. A corporate hedging program should primarily focus on medium- to long-term time frames in order to capture/protect against the market's major price adjustments. That is to say, hedges should be proactively adjusted when a large structural shift in the market's trend is developing.

Another pitfall: using inappropriate hedging tools. This can include using forward contracts or short option sales to hedge a contingent or non-cash exposure. For example, if a company uses forwards to hedge anticipated sales to Japan—and there's a shortfall—then the company will have an overhedged position (e.g., sold forward more yen than necessary) which could generate real cash losses if the yen strengthens.

Also, be wary of exotic option products that may initially look inexpensive or otherwise attractive but that may ultimately prove to be rather costly. (Most exotic option transactions are extremely profitable to the seller.) It is important to analyze the characteristics of all hedging tools to make certain they ultimately provide both the desired protection and the necessary flexibility.

In short, a successful corporate hedging program is designed to protect you against currency swings, not to support speculation. Remember: In these volatile currency markets, failure to hedge your currency exposures can be the rankest form of speculation.

U.S. corporations must develop the skills that many of their foreign competitors already possess; the ability to operate in an increasingly interactive global context that includes the challenge of currency fluctuations as a constant factor in their performance. Just as a company must seek out the top available employees for product development, manufacturing and marketing, so should they recognize the importance of the currency hedging function.

So, don't be put off when you read of potential or actual scandals and mishaps. As we tell our corporate clients, although the currency markets are often volatile, they are certainly manageable. Just ask your foreign competitors.



CIGA HOTELS

Will the muse visit you during your stay at the Gritti Palace in Venice? You will certainly enjoy the same sources of inspiration as Mr Hemingway.

The Grand Canal still laps the hotel entrance as it has for five hundred years.

Titian's 16th century portrait of Doge Andrea Gritti continues to grace the hotel's walls.

ERNEST HEMINGWAY WROTE A NOVEL HERE. PERHAPS YOU MAY BE MOVED TO WRITE A MEMO OR TWO?

And the view from your window, across to the church of La Salute, is the same one that greeted the American author on his arrival in October 1949.

The Gritti Palace became not only the place where he wrote, but also the place that he wrote about, in "Across the river and into the trees".

In truth, other Ciga Hotels have proved equally inspiring. And neither satellite communications nor air conditioning have robbed them of their historic charm.

In Asolo, amid the hills of the Veneto, you will find the Villa Cipriani. Once the home of Robert and Elisabeth Browning.

But perhaps the most literary of our hotels is the Meurice, which borders the Tuileries in Paris.

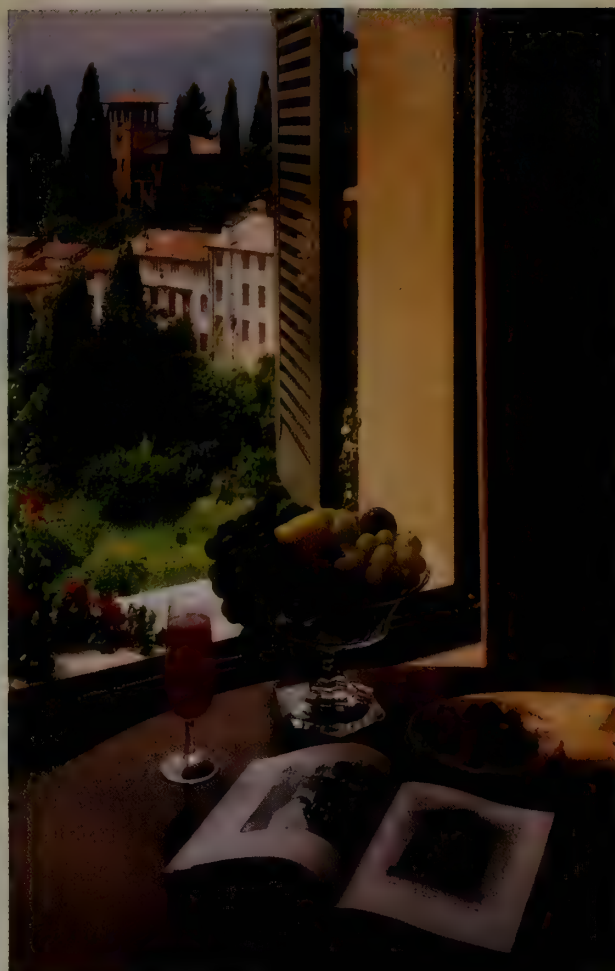
For more than thirty years, its renowned restaurant served as headquarters to France's most noted literary circle.

An era immortalised in Fargue's "Les Piétons de Paris". And commemorated by the portrait of its Patron, Florence Gould, which presides over diners to this day.

If you are a person more attracted by the beauty of a traditional building than the sterility of a tower block, consider a Ciga Hotel next time you travel.

There are currently 36 to choose from, with room rates much the same as ordinary five star hotels.

To obtain a brochure describing them all, simply fax your letterhead or business card to New York 212-421 5929. Alternatively, telephone New York 212-935 9540.



Annual Report on American Industry

"I'm fast on my feet." One of boxing great Muhammad Ali's more famous slogans back in the 1960s. But almost 30 years later it well describes the 21 companies (*see table*) profiled in this issue as America's most nimble.

Fast-on-your-feet wasn't so necessary in the recent past. Big, hierarchical organizations had certain advantages of scale and of integration, and if someone else beat them to market, no matter. They would slowly swing into action and crush the interloper. True, giant companies had a life cycle, founded by entrepreneurs, growing into large, efficient firms and then slowly decaying over decades.

In the 1990s you can go from market dominance to decay in a couple of years. Only the nimble can avoid that fate. Being nimble means avoiding multiple layers of management, keeping close to your customers and putting a premium on quality and service. Nimble firms anticipate new markets and eliminate time-wasting steps from product development, manufacturing and marketing (*see related story, p. 60*). They are fanatical about keeping costs down because the low-cost producer can survive al-



most any onslaught.

How did we identify the companies we thought most nimble in their industries? Our statistic department provided computer reports identifying firms with the best gains in measures such as return on equity, profit margins and profits per employee. The next step was mixing statistics with judgment based on interviews, research and experience.

Chrysler Corp., for instance, didn't pop up on top

of our computer search for the best durable goods firm because it has gone through hard times. But sometimes hard times reveal who is truly nimble, and Chrysler has emerged with some of the most advanced and competitively priced car lines in the world.

In a totally different business, Circus Circus Enterprises was picked by our computer—and by our writer—as the nimblest in the travel industry. It was one of the first outfits to identify and exploit the market for theme-based casino hotels for low- and middle-income gamblers. Its two-year-old castle-motif Excalibur in Las Vegas will soon be joined by Lixor, a resort styled like an Egyptian pyramid. Competitors are following in their footsteps.

The nimble 21

Industry	Company	Survey page
Aerospace & defense	Loral	96
Business services & supplies	Automatic Data Processing	98
Capital goods	Emerson Electric	102
Chemicals	Rohm & Haas	106
Computers & communications	Advanced Micro Devices	114
Construction	Vulcan Materials	120
Consumer durables	Chrysler	124
Consumer nondurables	Church & Dwight	130
Electric utilities	San Diego Gas & Electric	134
Energy	Schlumberger	138
Entertainment & information	Viacom	142
Financial services	NationsBank	146
Food distributors	Winn-Dixie Stores	152
Food, drink & tobacco	Dibrell Brothers	156
Forest products & packaging	Louisiana-Pacific	160
Health	Schering-Plough	162
Insurance	Cincinnati Financial	166
Metals	Oregon Steel	170
Retailing	Walgreen	172
Transport	Roadway Services	176
Travel	Circus Circus Enterprises	178

How we calculate the results

Profitability				Growth				Sales	Net income	Profit margin
Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos	latest 12 mos	latest 12 mos
5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos			
%	%	%	%	%	%	%	%	\$mil	\$mil	%

Profitability

Return on equity is calculated by taking primary earnings per share and dividing it by common shareholders' equity per share at the start of the fiscal year. In calculating common equity, we assume that all convertible preferred stock is converted into common. The liquidation value of nonconvertible preferred shares is subtracted from total stockholders' equity. Net income and earnings per share include gains or losses from discontinued operations but exclude extraordinary items like tax-loss carryforwards.

Five-year average return on equity is calculated with a modified version of the sum-of-the-years digits method. This gives greater importance to recent results. If a firm lost money during any fiscal year but started that year with positive equity, we calculated the percentage lost on equity and factor this result into our equation for that year. Companies were penalized for the years in which they had negative equity. If a company shows a return on equity exceeding 100% in a given year, this value is automatically scaled back to 100%.

For return on capital, FORBES divides a firm's total capitalization into the sum of three items—aftertax profits, the amount remaining if the interest paid on long-term debt were taxed and minority interest. Most companies (except for electric utilities) don't report interest expense on long-term debt. In such cases we estimate the interest expense figure for the latest 12-month period. We assume a 34% corporate tax rate to compute the tax break derived from interest expense. We define total capitalization as long-term debt, common and preferred equity, deferred taxes, investment tax credits and minority interest in consolidated subsidiaries.

Growth rates

We use the least-squares method to calculate sales and earnings growth rates. This equation adjusts for sharp fluctuations and yields a result that closely reflects the average rate of growth. Example: During a four-year period a firm's earnings go from 50 cents to \$1.25, then to \$2.50 and finally to \$2.75 in the last year. That's a 150% jump from the first year to the second, 100% in the third and a 10% increase in the fourth year. Least-squares says that on average, earnings grew by 78.7% ($\$0.50 \times 1.787 \times 1.787 \times 1.787$). If you do the math yourself, you'll get \$2.85 instead of \$2.75 in the fourth year. That's because the regression formula comes up with a result that best fits the year-to-year change for all four years, not just between the first and last year.

There's one limitation to the least-squares method. It can't handle negative values. If earnings are negative at the beginning of the period, we calculate the growth rate for a shorter period, starting with the first positive year. If a company lost money during the middle of a measuring period, FORBES dropped the year from the calculation and measured the growth rate over the remaining positive periods. Our assumption: that a single loss may not be representative of long-term performance. If a firm lost money in more than one year, however, the five-year growth rate is not calculated and the result is listed as not meaningful (NM).

Our computer checked all growth rates with a comparison method to see if the earnings pattern made logical sense. Here's an extreme hypothetical case: If a company's earnings go from \$2.50 in the first year to 1 cent in the second, \$4.50 in the third and 25 cents in the fourth year, the resulting growth rate is -7.7%. This does a terrible job of describing year-to-year changes, so we marked such fluctuating earnings patterns as not meaningful.

Time periods

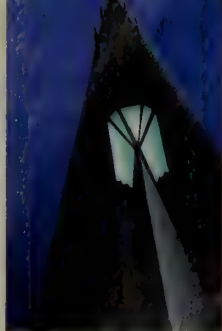
The five-year growth rates we use require six years' worth of data. These rates are based on latest fiscal year-end results. All growth rates covering a period of less than five years are footnoted. When the range of available data is less than four years, we marked it as not available (NA).

Latest 12-month comparisons are between the most recent four quarters and the comparable quarters the previous year. Sales, net income figures and profit margins are measured over the latest 12 months. Debt as a percentage of total capital is based on the most recent balance sheet.

Definitions

FORBES defines sales as net sales plus other operating revenue. For banks, sales is total interest income plus other operating income. Sales for insurance companies includes premium income plus net investment and other income. Debt as a percentage of capital is long-term debt, including capitalized leases, divided by total capitalization.

Medians are calculated by listing the companies in rank order and selecting the value of the middle company. If there is an even number of firms, the median is derived by averaging the data on the two middle companies. The all-industry median is based on the median of the 21 individual industry medians. All companies, including those with negative values, are ranked in calculating the industry median, except for those marked NA.



Aerospace & defense

Consolidation among defense suppliers seems finally to have begun in earnest.

By Howard Banks

The number of players in the defense industry is shrinking—a healthy development in a business faced with shrinking demand. Lockheed bought General Dynamics' Fort Worth fighter operation for \$1.5 billion. General Electric sold its aerospace operation (but not its profitable jet engine division) in November to Martin Marietta for \$3 billion plus 23% of Marietta's stock. In December FMC, in effect, took control of Harsco's military vehicle operation. It seems likely that manufacturing will be moved from FMC's high-cost California plants to Harsco's lower-cost, modern Pennsylvania plant. Earlier, Loral acquired

LTV's missile business (*see box*). The Federal Trade Commission created an exception to this trend when it scotched the proposed merger of munitions makers Alliant TechSystems and Olin Corp. as anticompetitive.

Despite the FTC's action, expect more mergers and acquisitions as procurement spending declines. Defense outlays (meaning actual spending) in 1993 dollars were \$75 billion in 1992, down from a peak of \$96 billion in 1987. Expectations are that they will slowly decline to \$55 billion by 1995.

Defense sector employment is also falling. At under 1.1

The sincerest form of flattery

A few years ago, when Bernard L. Schwartz, chairman and chief executive of Loral Corp., began buying defense industry assets, he says he was looked upon as a contrarian. No longer. "I take it as the sincerest form of flattery that industry leaders such as Jack Welch of GE are validating our strategy." He means that in throwing GE's defense businesses into Martin Marietta, Welch is joining the consolidation parade that Schwartz started years ago.

Schwartz took advantage of investor skepticism about defense stocks to buy such assets relatively cheaply. "It was a buyer's market," and he insists it still is. "The industry has a long way to go before this rationalization even approaches some degree of stability."

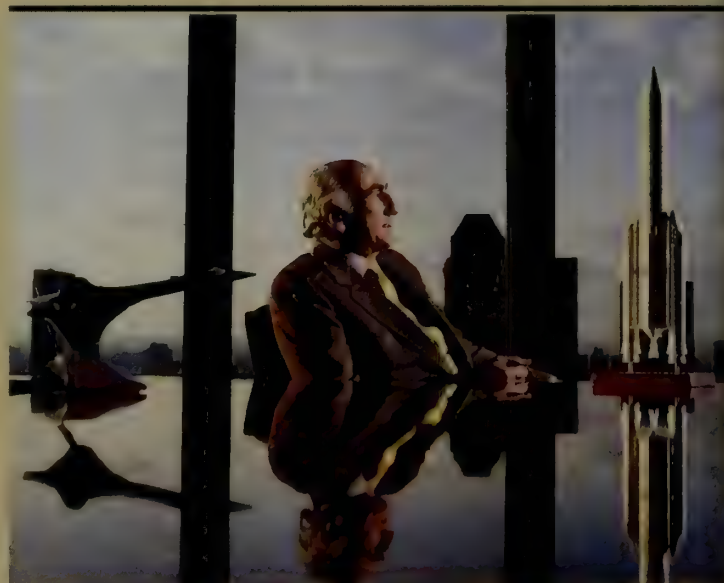
Acquisitions and smart management have enabled Loral to report increased quarter-to-quarter earnings for 81 consecutive

quarters. Over the past 20 years per-share earnings have grown at an average annual rate of 28%.

Loral remains a high-technology defense supplier (78% of sales). But since 1985 Loral has added to its original business of electronics warfare (identifying threats and providing countermeasures). Its largest acquisitions have been in advanced military communications and intelligence and training.

Missiles are now part of Loral's arsenal, thanks to its \$244 million acquisition last August of LTV's missile business. Loral already has a contract with the Army to upgrade the guidance system used on LTV's Multiple Launch Rocket System.

Schwartz is also moving to commercialize space. Much of the assets acquired in 1990 from Ford Aerospace are now in a new company, Space Systems/Loral. Loral holds 51%; the rest is shared by Alcatel and Aérospatiale of France, Alenia of Italy and DASA of Germany.



Bernard L. Schwartz, head of Loral Corp.

Rationalization has a long way to go.

Loral gains technology, market access and cost sharing from this partnership.

"You don't have to own 100% of a growth business to make it worthwhile, provided you have responsibility for operations and especially control the technology," says Schwartz. This group is developing a \$1 billion worldwide cellular phone service that will operate

with local telephone companies.

Schwartz, 67, admits he's the architect of Loral's strategy but denies the company is a one-man band. "It's a well-oiled team with consistent, well-articulated goals," he says. Such goals may soon be shared by other defense contractors: "I'm not going to sit on our cash. My instinct is to use it for acquisitions." —H.B. ■

million jobs, aerospace (about one-third of the defense budget) is already down 20% from its peak in 1989.

The new realities are also hitting home at NASA. Following the Discovery mission in December, the military will no longer use the shuttles to launch satellites. And there is mounting political pressure to cut spending on the \$30 billion space station program.

One of the few areas where spending is increasing is in antimissile defense via land-based rather than space-based weapons. Lockheed, Loral and others share a \$688 million development program awarded in September for a battle-field system able to defend a 200-mile radius. A ground-based antimissile system capable of defending the continental U.S. is expected to move forward during 1993.

The cushion formerly provided by the airliner market is

thinning. The collective backlog for the four biggest manufacturers (Boeing, McDonnell Douglas, and Europe's Airbus Industrie and Fokker) is now down to \$160 billion. Some airlines are postponing deliveries, and a few airlines, such as Northwest in December, have actually canceled some orders. New orders have been sparse.

The big question now in the airliner market is what happens to McDonnell Douglas. Following the collapse of its attempted joint venture with the Taiwanese, it had to put its proposed MD-12 design on ice. It is also having difficulty getting new orders for its existing MD-11 update of the DC-10. Moreover, if it is to remain a viable competitor, it will soon be faced with investing in a replacement design for its somewhat dated MD-80 range of short- to medium-range jets.

Aerospace & defense	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital %	Sales		Earnings per share				
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company											
Teledyne	28.4	13.9	9.8	46.2	NM	-8.5	NM	D-P	2,990	64	2.1
Martin Marietta	24.8	17.8	13.1	22.9	5.1	3.6	12.0	-1.7	6,175	314	5.1
Raytheon	23.1	18.6	18.6	0.7	5.4	-2.3	11.8	5.8	9,092	623	6.9
General Electric	20.4	21.5	13.0	50.3	7.3	3.3	16.9	6.7	61,916	4,647	7.5
GenCorp	20.4	17.3	9.6	63.3	-5.3	3.9	-18.0	27.5	1,993	37	1.8
Boeing	18.3	20.5	17.9	12.8	14.9	6.5	24.5	12.8	30,440	1,661	5.5
Precision Castparts	17.7	14.2	13.0	4.2	11.2	-5.5	8.6	27.6	536	45	8.4
Teleflex	17.7	14.4	11.0	33.1	17.4	20.7	12.2	4.6	554	31	5.6
Thiokol	16.8	17.4	12.3	22.5	7.1	4.7	13.4	11.4	1,311	63	4.8
Loral	16.4	13.3	10.5	28.3	27.1	3.4	9.1	10.1	2,925	140	4.8
E-Systems	16.3	15.6	14.2	9.3	12.4	8.5	11.1	10.4	2,085	118	5.7
Rockwell Intl	15.5	11.8	9.2	17.7	-1.5	-8.5	-2.4	-16.0	10,910	483	4.4
Sundstrand	15.1	13.5	9.0	46.3	3.8	0.7	NM	-0.8	1,667	93	5.6
Northrop	13.7	18.9	15.1	22.4	-0.9	-0.8	NM	46.6	5,603	225	4.0
Harsco	13.1	19.5	16.7	19.1	12.1	-3.5	NM	35.7	1,797	94	5.2
Lockheed	12.8	11.3	10.2	31.3	-1.9	-0.8	-6.4	10.8	9,939	332	3.3
Litton Industries	12.1	13.6	8.8	32.9	4.4	6.5	NM	169.2	5,699	176	3.1
General Dynamics	11.4	42.4	36.5	12.4	NM	-20.4	NM	D-P	7,175	807	11.3
Textron	11.3	10.9	7.7	72.0	3.6	2.9	1.6	11.0	8,204	330	4.0
Kaman	10.0	8.5	7.3	32.7	5.6	-1.1	-8.1	-6.0	782	17	2.2
Grumman	9.4	10.6	7.9	29.6	3.6	-7.4	7.1†	14.7	3,674	105	2.9
McDonnell Douglas	9.1	7.4	6.7	49.4	7.0	-0.3	NM	35.0	17,748	286	1.6
Allied-Signal	7.5	17.5	11.9	31.0	1.0	0.2	NM	D-P	11,994	527	4.4
UNC	6.3	8.4	8.6	44.6	-8.6	2.6	-11.1	79.5	365	12	3.3
Oshkosh Truck	6.0	5.0	5.5	35.9	2.2	54.1	NM	D-P	607	6	0.9
Hexcel	5.1	2.8	3.8	37.2	5.1	1.9	-25.1	12.2	395	4	1.0
Fairchild	4.5	def	2.8	69.2	8.8	-5.2	NM	D-D	487	-18	def
Sequa	4.3	def	3.0	50.4	33.9	-1.5	NM	D-D	1,910	0	0.0
Rohr	3.9	def	3.0	51.6	14.0	-10.8	NM	P-D	1,239	-1	def
United Technologies	3.4	def	def	25.4	6.4	2.9	NM	P-D	21,663	-807	def
SPS Technologies	2.7	1.7	3.0	24.3	2.0	-23.5	-10.1	D-P	313	3	1.0
GM Hughes Electronics	2.4	0.0	0.3	7.4	2.5	6.1	NM	-97.3	11,921	8	0.1
ESCO Electronics	def	0.3	0.6	0.0	-7.5	-15.6	NM	D-P	406	1	0.3
Wyman-Gordon	def	def	def	0.4	3.9	-19.6	NM	D-D	311	-84	def
Avondale Industries	def	def	def	43.8	9.9	-19.5	NM	D-D	643	-124	def
Talley Industries	def	def	def	73.0	NM	3.9	NM	D-D	337	-36	def
Coltec Industries	NE	NE	29.6	229.2	-1.8	-2.0	NM	20.8	1,369	37	2.7
Alliant Techsystems	NA	9.3	8.4	31.2	NM	3.1	NA	NA	1,199	17	1.4
Industry medians	11.3	11.1	8.9	31.2	4.1	-0.1	NM	11.0	1,952	54	3.0
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. P-Z: Profit to zero. Z-D: Zero to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.



Business services & supplies

The service industry is once again profiting as corporations let these cost-efficient providers do their dirty work.

By William Stern

Companies like to send out their drudgery, and more are doing so every day. This is good news for outfits that provide security guards, prepare W-2s, treat industrial waste and do other odd jobs. Service companies posted a 6.3% earnings-per-share gain in the last 12 months, which was welcome news after two disappointing years.

Why the turnaround? The service companies are riding what Merrill Lynch's Stephen McClellan has termed a "tidal wave of outsourcing." Corporations are becoming

less concerned that they might lose control by farming out certain tasks. Instead, enlightened managers pride themselves on intelligent use of outside contractors. That's why outsourcing—already a \$5 billion industry—could double by 1995.

Last year white-collar executives saw tentative signs of an improving economy and realized that part-time help was an efficient way to handle increased demand without making long-term hiring commitments or paying benefits.

Business services & supplies	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Business services											
Rollins	40.4	35.1	29.4	0.0	7.9	10.6	9.9	20.9	516	37	7.2
General Motors EDS	29.9	23.4	19.0	14.1	10.7	22.6	16.8	13.3	8,121	613	7.6
Pinkerton's	26.5	8.0	7.5	33.9	23.1	13.7	NM	-31.0	694	9	1.3
Kelly Services	23.3	9.9	9.9	0.0	7.2	14.9	NM	-23.0	1,628	35	2.2
Automatic Data	22.1	22.3	18.8	19.7	6.2	12.3	15.3	12.6	2,007	262	13.1
Wackenhut	18.9	18.6	11.6	49.2	12.0	7.8	20.4	4.6	605	8	1.3
Olsten	18.5	16.5	12.5	32.0	19.8	18.0	6.0	80.3	930	19	2.0
Equifax	18.2	21.4	17.6	9.9	13.0	4.0	2.2	59.6	1,126	75	6.7
Safeguard Scientifics	17.5	11.1	9.2	52.9	57.9	44.4	10.2	-14.5	816	10	1.3
Standex International	14.7	16.2	11.7	36.4	3.3	3.7	14.6	27.3	491	23	4.6
Shared Medical Sys	14.5	15.3	14.2	1.7	2.6	7.1	-7.8	12.0	462	28	6.0
First Financial Mgmt	14.5	13.9	9.0	42.5	72.8	16.5	34.2	67.5	1,715	115	6.7
Computer Sciences	14.3	11.9	9.2	32.8	15.2	31.4	14.7	8.7	2,411	73	3.0
American Building	12.9	13.2	12.8	13.7	9.0	6.3	16.9	8.3	769	12	1.6
PHH	12.5	12.4	10.6	76.0	7.5	-4.5	10.6	9.5	1,945	51	2.7
Adia Services	10.8	5.3	5.4	1.0	20.9	8.2	NM	15.9	698	10	1.5
AAR Corp	10.1	5.0	4.6	21.8	8.1	-9.7	-9.2	-16.4	413	10	2.3
National Education	0.9	6.6	6.1	34.1	6.0	2.0	NM	D-P	384	10	2.7
Volt Info Sciences	0.7	def	2.9	50.7	2.7	6.7	NM	D-D	496	-2	def
PS Group	def	def	0.7	42.6	-16.8	-11.1	NM	D-D	253	-12	def
Manpower	def†	def	def	45.1	37.5*	8.8	NM	D-D	3,107	-50	def
Ceridian Corp	NA	def	def	210.7	NA	NA	NA	NA	806	-31	def
Medians	14.5	12.1	9.6	33.3	9.0	8.2	6.0	9.5	788	16	2.3
Business supplies											
Deluxe	28.0	26.7	23.1	11.9	11.9	3.6	7.9	9.2	1,518	200	13.2
HON Industries	26.6	26.3	21.0	24.5	4.7	13.2	11.6	17.3	688	40	5.8
Minn Mining & Mfg	20.7	17.7	16.9	2.9	9.8	2.5	10.3	1.7	13,734	1,207	8.8
Reynolds & Reynolds	20.6	24.7	12.1	23.1	1.9	7.6	9.8	52.6	645	38	5.9
Chemed	20.4	9.1	8.9	12.9	NM	-5.2	NM	-65.2	387	17	4.4

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

At Manpower Inc., the world's largest supplier of part-time nongovernment personnel, revenues shot up 15% in the first nine months of 1992 compared with the same period of 1991. Kelly Services, Olsten Corp. and other temp firms also benefited.

Data service companies are also riding the boom. Although personal computer networks have replaced mainframes at many corporations, the data service companies offer expertise in areas such as automobile leasing, cash transfers and backup recovery systems for computer

disasters. In the coming years companies such as Shared Medical Systems and Computer Sciences Corp. should continue to grow, because they have essentially already locked in substantial future revenues with long-term contracts.

The data services industry is currently expanding at a 15%-to-20% growth rate in unit volume. Net profits jumped 17% in the 12 months ended last September at General Motors' Electronic Data Systems. Other data processing firms that have been prospering of late include credit card authorizer

They make money paying us

Each pay period, 15 million American workers get paychecks that don't come from their own firm's accounting department. They come instead from the payroll services of Automatic Data Processing, Inc., a company that pays one-eighth of the U.S. work force. Last year ADP issued 29 million W-2s for the 1991 tax year. This count is sure to rise: Last May ADP bought Bank of America's payroll operation, adding 17,000 clients and gaining a stronger presence in the California market.

ADP, based in Roseland, N.J., was cofounded by a young, ambitious salesman; some 40 years later that salesman is New Jersey's junior senator, Frank Lautenberg. The company just turned in its 125th consecutive quarter of double-digit earnings-per-share growth—by far the longest unbroken string of any U.S. public company.

ADP doesn't feel threatened by personal computers in the workplace. "We see PCs as a helper," says Chairman and Chief Executive Josh Weston, 64. "We get cleaner data from our clients [who collect data on PCs], yet they simply can't perform the functions we do."

Claude Etlinger/Gamma-Liaison



Josh Weston
of Automatic
Data Processing
**"The best pole
vaulter gets the
gold medal, but
not before
trying to
do better."**

Weston is on the road a good part of the year. He visits each of ADP's 50-plus locations annually and insists on chatting with middle managers, not just big shots. "We strive to stay ahead of trends in the marketplace," he claims.

ADP has a strong record in each of its four core areas of operation: payroll, brokerage, auto dealers and auto claims. Payroll processing is the largest business by far, accounting for 58% of ADP's sales.

Brokerage services, such as back-office financial recordkeeping, contribute 20% of ADP's revenues. ADP processes more than 20% of Wall Street's trades. Business is so good that

the company has a backlog of about 6,000 quote terminals on order that will be installed during the next 18 months at clients such as First Boston and PaineWebber. Last February the firm doubled its proxy services and became the largest provider of proxy services in North America by purchasing the Independent Election Corp. of America.

The dealer services group (12% of revenues) supplies auto dealers with terminals that are used to calculate a car's purchase price, monthly payments or lease options, or to locate a car with certain specifications anywhere in the country. ADP moved into

Europe last January with its purchase of Autonom, one of the Continent's largest vendors of automotive computing services.

The auto claims services area amounts to only 5% of ADP's sales, but it has the highest margins. It provides computer-based repair estimates, and it processes claims for one out of every four insured automobile accidents in the U.S.

Given its record and its cash and marketable securities hoard of \$792 million, it is almost a certainty that ADP will continue growing. Says Weston: "We're always looking for another smart buy." —W.S.

First Financial Management and payroll processor Automatic Data Processing (see box, p. 99).

Companies that treat, handle and transport other firms' solid waste should benefit from the arrival of the Clinton/Gore Administration—which is widely expected to favor more enforcement of and additions to environmental regulations. Among the expected winners are Waste Management, the nation's largest provider of waste manage-

ment services, and solid waste processor Browning-Ferris Industries.

Earnings per share were up only 1.7% in the last 12 months in the business supply industry. The global recession was responsible for a decline in overseas sales at Smith Corona, the world's largest maker of electric typewriters. New Hampshire-based office supplier Nashua Corp. suffered from reduced paper demand and soft pricing. ■

Business services & supplies	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital		Sales		Earnings per share				
	5-year average	latest 12 mos	latest 12 mos	Debt/capital	5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos	latest 12 mos	latest 12 mos
	%	%	%	%	%	%	%	%	\$mil	\$mil	%
Company											
Pitney Bowes	17.6	17.8	11.6	31.0	10.9	3.6	8.0	10.8	3,412	320	9.4
Alco Standard	16.3	11.1	9.2	37.1	6.6	3.6	NM	-21.8	4,925	96	1.9
Amer Business Prods	14.5	17.4	14.7	23.4	7.2	4.9	9.7	31.4	462	21	4.5
Wallace Computer Svcs	14.2	12.4	11.3	6.4	7.8	11.5	5.5	8.0	512	39	7.7
Interface	12.8	6.3	6.0	53.1	33.6	-0.8	NM	12.3	596	13	2.1
Standard Register	11.0	12.1	10.8	8.0	3.8	-0.4	-5.7	124.2	696	40	5.7
Comdisco	10.5	3.1	4.5	59.6	15.3	1.4	NM	-71.1	2,205	20	0.9
Moore Corp	10.3	def	def	3.0	4.3	-3.8	-5.7	P-D	2,451	-169	def
Mine Safety Appliance	9.7	5.2	4.7	7.8	5.7	4.5	5.9	-37.8	517	14	2.8
Diebold	9.0	10.2	10.6	0.0	3.8	9.3	NM	32.6	535	41	7.6
United Stationers	8.4	6.1	5.9	39.7	7.0	15.1	-13.0	10.9	1,094	11	1.0
Avery Dennison	7.8	8.8	7.4	22.4	6.7	2.9	NM	Z-P	2,643	79	3.0
Nashua	7.8	0.8	1.3	15.0	-8.7	-1.2	NM	-86.4	532	1	0.2
Herman Miller	7.7	def	def	9.4	7.1	-1.4	NM	P-D	820	-3	def
Xerox	7.2	7.4	8.2	41.5	6.5	0.2	-7.7	-21.8	18,009	493	2.7
Anacomp	def	NE	13.3	95.3	15.8	-1.0	NM	0.0	629	18	2.9
AM International	def	def	def	49.6	-8.2	-27.9	NM	P-D	619	-125	def
Fisher Scientific	NA	22.3	20.1	14.8	4.9	9.8	NA	NA	808	24	3.0
Smith Corona	NA	14.7	12.5	9.3	NM	3.9	-17.6†	-26.3	366	13	3.5
Medians	10.8	9.7	9.9	18.7	6.6	3.2	-13.0	1.7	692	23	3.0
Industrial services											
JWP	22.3	def	def	47.5	59.6	31.6	24.1	P-D	4,227	-217	def
Safety-Kleen	18.4	9.8	7.2	33.8	21.6	14.9	10.6	-22.1	765	47	6.1
Figgie Intl	13.0	7.8	6.4	42.9	7.3	-5.7	NM	13.8	1,195	30	2.5
Ogden	12.0	10.2	5.5	75.3	16.2	10.5	-13.6	33.3	1,708	48	2.8
CDI	10.7	0.4	1.5	36.0	12.5	5.0	NM	D-P	833	0	0.1
CRSS	3.5	def	def	36.5	4.0	-3.4	NM	D-D	459	-21	def
Ecolab	def	def	def	45.9	8.9	-4.3	NM	P-D	987	-205	def
Medians	12.0	0.4	1.5	42.9	12.5	5.0	NM	-22.1	987	0	0.1
Environmental & waste											
Waste Management	21.6	18.2	10.5	34.0	30.0	14.5	12.1	-2.5	8,468	765	9.0
Thermo Electron	13.1	11.3	8.9	24.6	20.1	9.9	18.6	12.1	880	56	6.4
Browning-Ferris Inds	10.8	15.2	9.8	42.4	14.9	3.3	-12.3	164.3	3,287	176	5.3
Zurn Industries	10.2	4.6	4.5	6.0	12.3	4.6	NM	-64.3	649	11	1.7
Intl Technology	2.0	def	def	53.9	15.4	-0.6	NM	P-D	420	-14	def
ICF Intl	def*	def	def	47.5	72.8	10.5	NM	D-D	755	-9	def
Air & Water Tech	def*	def	2.7	50.0	15.5	5.1	NM	D-D	690	-2	def
Medians	10.2	4.6	4.5	42.4	15.5	5.1	NM	-64.3	755	11	1.7
Industry medians	12.8	9.9	8.9	33.3	8.1	4.9	-10.7	6.3	788	20	2.7
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus Sources: Forbes; Value Line Data Base Service via Lotus One Source.

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Capital goods

Business improved a bit for some makers of capital goods. That was good news, considering this industry's long slump.

By Brigid McMenamin

The battered capital goods industry is finally starting to improve. Shipments finished with an estimated 3.3% gain over 1991.

Smith Barney analyst Tobias Levkovich points out that U.S. industry may have deferred capital spending in hopes of cashing in on a Clinton investment tax credit. He calculates that a 10% tax credit might increase overall

spending on industrial equipment this year by 20%.

Foreign sales make up over one-third the sales of many of the capital goods makers. In the first nine months of 1992 exports increased 4%, compared with the same period a year earlier. So for a full-blown recovery to take place this year, exports will have to increase much faster.

Sales of electrical transformers and electrical distribu-

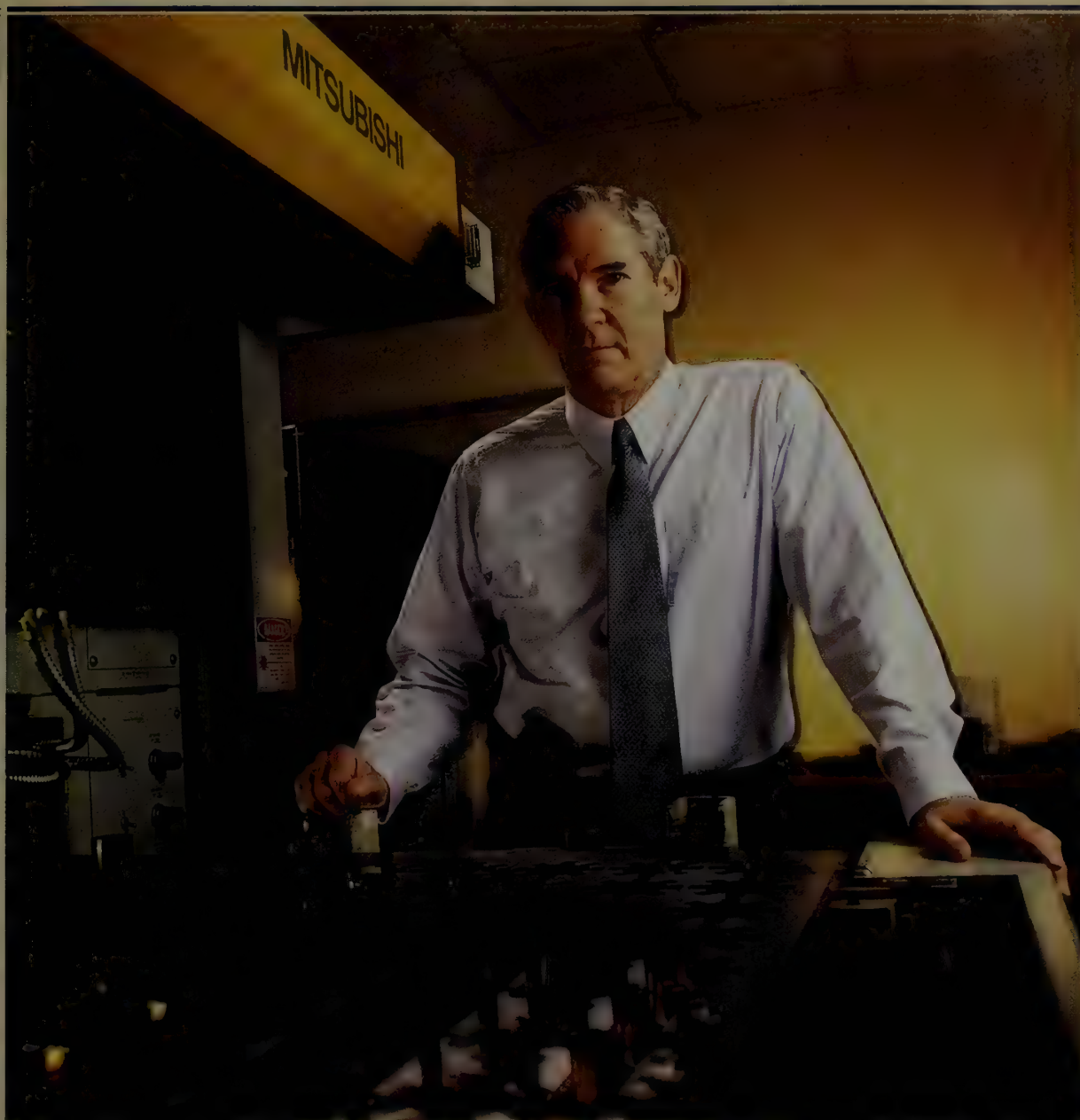
Capital goods	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos	latest 12 mos	latest 12 mos
Company	%	%	%	%	%	%	%	%	\$mil	\$mil	%
Electrical equipment											
MagneTek	34.0	16.1	9.7	68.9	13.0	9.4	48.2	-17.6	1,272	29	2.3
Premier Industrial	29.0	25.6	24.4	1.7	6.7	3.1	12.6	11.8	652	82	12.5
Mark IV Industries	26.2	12.3	9.2	58.8	31.1	11.9	20.9	-7.0	1,189	40	3.4
Emerson Electric	20.5	20.4	18.4	11.3	4.4	3.8	7.8	4.6	7,706	663	8.6
General Electric	20.4	21.5	13.0	50.3	7.3	3.3	16.9	6.7	61,916	4,647	7.5
Hubbell	19.7	17.7	16.9	0.5	6.6	3.1	10.8	4.0	770	94	12.1
Honeywell	17.9	26.0	20.2	20.5	5.9	1.2	NM	45.9	6,228	481	7.7
WW Grainger	17.1	15.7	14.9	1.2	12.7	11.7	10.9	8.5	2,286	136	6.0
Genlyte Group	12.2†	2.6	4.9	63.9	NM	-2.5	-29.4	-7.7	424	2	0.4
National Service	11.7	11.3	9.6	3.5	4.3	2.0	-8.4	130.8	1,634	74	4.5
Andrew	10.7	11.5	10.6	18.1	15.7	6.2	37.7	14.5	442	25	5.7
Valmont Industries	10.6	def	0.4	35.7	8.9	-5.6	NM	P-D	418	-4	def
Willcox & Gibbs	9.0	4.0	5.2	48.8	19.6	-20.9	-24.7	200.0	468	5	1.0
Imo Industries	7.4	def	def	52.5	27.5	-8.8	-15.8*	P-D	943	-52	def
Westinghouse	3.5	11.5	7.0	48.5	2.9	-5.0	NM	D-P	12,428	399	3.2
General Cable	NA	NA	NA	49.9	9.0*	-8.6	NA	NA	958	-140	def
Medians	17.1	12.3	9.7	42.1	8.1	2.5	7.8	6.7	1,074	57	4.0
Heavy equipment											
Stewart & Stevenson	21.2	14.8	13.3	13.6	22.9	14.9	24.2*	20.3	754	39	5.2
Federal Signal	20.5	20.1	18.0	8.8	10.7	11.0	23.4	11.0	508	33	6.6
Nacco Industries	13.3	6.3	6.8	61.7	25.8	4.5	-5.8	127.3	1,431	22	1.6
Ingersoll-Rand	12.4	9.5	7.9	17.0	7.1	0.2	12.3	9.9	3,626	155	4.3
Harnischfeger Inds	11.3	9.3	8.9	24.6	18.8	-15.7	41.2*	-13.2	1,411	55	3.9
Trinity Industries	10.4	7.9	7.2	51.4	21.4	6.5	24.3	4.9	1,347	29	2.2
Deere & Co	8.4	def	1.1	48.9	12.7	-3.5	NM	P-D	6,967	-48	def
Terex	7.5	def	def	69.7	46.5	10.9	NM	D-D	902	-52	def
Caterpillar	3.7	def	def	51.0	8.1	-5.4	NM	D-D	9,918	-480	def
Interlake	3.5	NE	10.7	132.8	NM	-2.3	NM	D-D	706	-13	def
Tenneco	3.2	8.3	5.9	59.7	-0.9	-3.1	NM	D-P	13,468	231	1.7
Clark Equipment	1.0	def	def	29.7	6.4	-28.3	NM	D-D	906	-56	def
McDermott Intl	def	14.5	9.0	42.3	3.8	-9.9	NM	D-P	3,185	95	3.0
Allied Products	def	def	def	17.9	NM	-13.1	NM	D-D	331	-28	def
Medians	7.9	7.1	7.0	45.6	9.4	-2.7	NM	-4.2	1,379	26	1.6

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

Wired for profits

Mark Kautzman



Emerson Electric's Charles Knight

An ability to quickly develop new products that are better than the competition's.

In the volatile capital goods industry Emerson Electric Co. is something special. The St. Louis-based firm recently reported its 35th consecutive year of record earnings. Chief Executive Officer Charles Knight, 56, who has been at Emerson's helm for almost two decades, has presided over more than half of this amazing winning streak.

Knight likes to keep a low profile. Who knows that he runs the world's largest manufacturer of electric motors? Or that

more than 80% of Emerson's products are first or second in their domestic markets? Besides motors, Emerson manufactures compressors, industrial machinery, and heating, ventilation and air conditioning components.

Knight attributes much of Emerson's success to keeping a close eye on the market—and moving quickly when something happens. In 1989, for example, a rival introduced a low-cost thickness gauge—a hand-held sonar device used to measure

the width of things like metal turbine blades. Emerson rolled out its version in just 72 days. The new Emerson gauge cost 20% less than the previous model yet was more profitable. Easier to use and more reliable than the competition's, the Emerson gauge was a bestseller within a year.

But Emerson also spends big bucks to improve manufacturing processes and introduce new products. The biggest investment to date: \$140 million on a contin-

uous-flow, spiral-chamber refrigeration compressor. The new compressor has already recorded sales of \$240 million and is up to 15% more energy-efficient than the old piston-based reciprocating compressor it replaces.

Acquisitions? Last year's \$1.28 billion purchase of Fisher Controls International made Emerson the leader in the \$15 billion global process control market. "That's a once-in-a-lifetime opportunity," says Knight.

—B. McM.

tion equipment rose 2.5% in the first three quarters of last year. General Electric's Power Systems division took in \$6.4 billion, mostly from the sale of power-generating turbines to utilities both here and abroad. Donaldson's sales rose 5% over fiscal 1991, thanks, in large part, to a 40% increase in foreign sales of gas turbine filters.

But manufacturers of construction equipment are still struggling. Compared with the first nine months of 1991, sales fell about 6%, and foreign sales were off much more than that because of recession in Europe. Many of these firms are scrambling to maintain cash flow. Clark Equipment, for example, had to unload its forklift manufacturing unit. Caterpillar is still reeling from a six-month strike that ended in April when union members returned to work

without a contract. Analysts expect that Caterpillar's 1992 loss will be about \$200 million.

But help may be on the way. A projected 9% increase in single-family housing starts in 1993 should stimulate demand for construction equipment—as should the anticipated increases in government spending on roads, mass transit and infrastructure.

Declining agricultural commodity prices and lower farm income warded off any hope of recovery last year for manufacturers of farm equipment. Unit sales were nearly 15% lower than they were in the first nine months of 1991, which was a particularly grim period. Tenneco's J.I. Case unit is operating at less than a third of its capacity. Its 1992 loss could be as much as \$210 million.

Capital goods	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos	latest 12 mos	latest 12 mos
Company	%	%	%	%	%	%	%	%	\$mil	\$mil	%
Other industrial equipment											
EG&G	22.1	20.5	20.3	0.5	20.4	2.9	11.0	8.5	2,740	86	3.1
Illinois Tool Works	19.8	15.4	13.1	15.3	20.0	7.2	16.3	3.1	2,801	188	6.7
Ametek	19.5	21.0	12.5	41.6	13.4	8.7	1.2	23.2	761	44	5.8
Dover	19.2	15.4	14.5	0.6	9.5	1.3	12.7	-3.1	2,241	126	5.6
Tyco Laboratories	19.0	10.3	8.9	33.4	23.6	0.2	18.7	-4.5	3,124	99	3.2
Crane	18.3	6.8	6.2	27.6	5.9	-1.1	14.5	-58.5	1,306	21	1.6
Keystone Intl	16.8	10.6	9.6	19.2	15.8	16.2	13.7	-38.7	557	26	4.6
Donaldson	16.0	15.8	15.3	6.2	9.6	8.0	19.6	14.6	495	26	5.2
Stanley Works	14.0	10.0	8.5	21.5	6.4	9.2	5.6	-6.4	2,131	97	4.6
Pentair	13.1	11.7	8.8	33.1	14.3	3.9	12.2	10.9	1,213	42	3.5
Cooper Industries	12.8	11.3	9.4	23.8	14.6	-3.2	15.5	3.7	6,078	401	6.6
Briggs & Stratton	12.1	17.4	13.2	17.4	4.9	11.3	NM	41.2	1,056	52	4.9
Goulds Pumps	12.1	13.9	11.9	14.5	10.6	-0.5	10.7	-3.9	568	30	5.3
Kennametal	10.4	4.9	5.1	26.8	12.0	-3.6	-6.0	-33.1	594	12	2.1
Commercial Intertech	10.0	4.9	6.7	28.9	10.3	-2.7	8.7	-49.0	436	13	2.9
Thomas Industries	9.3	def	2.0	40.8	8.7	-1.5	-16.5	P-D	412	-1	def
Parker Hannifin	8.8	6.5	6.3	28.5	4.1	0.5	-9.3	25.5	2,410	64	2.7
Lincoln Electric	8.7	2.1	2.8	38.8	18.7	6.6	-9.3	D-P	859	5	0.7
Tecumseh Products	7.8	8.5	8.1	2.3	9.5	6.0	-14.7	80.8	1,264	61	4.8
General Signal	6.6	12.8	10.1	39.6	NM	2.3	NM	500.0+	1,654	61	3.7
Bearings	5.1	def	def	0.0	11.5	1.2	NM	P-D	820	-1	def
Applied Power	4.4	def	def	53.8	27.0	-17.7	NM	P-D	357	-24	def
Timken	2.4	def	def	12.5	9.5	-3.7	NM	P-D	1,632	-32	def
Trinova	def	def	def	38.4	3.5	-4.9	NM	D-D	1,677	-166	def
Smith International	def	def	def	37.9	6.5	-15.0	NM	P-D	370	-22	def
Amphenol	def*	4.5	8.6	56.4	3.1†	-3.0	NM	D-P	461	10	2.2
Cincinnati Milacron	def	10.7	7.9	53.3	-1.6	-0.8	NM	D-P	773	13	1.7
Eagle-Picher Inds	def	NE	9.1	30.4	NM	-2.6	NM	D-P	604	24	4.0
BWIP Holdings	NA	29.0	19.6	30.4	15.5†	0.5	106.6†	74.0	427	41	9.5
York Intl	NA	19.4	12.3	40.4	17.8	22.3	NA	500.0+	1,893	59	3.1
Medians	10.2	10.2	8.7	28.7	10.0	0.5	-6.0	3.4	958	28	3.1
Industry medians	10.7	10.0	8.8	30.4	9.5	0.5	-7.2	4.6	1,123	30	3.1
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

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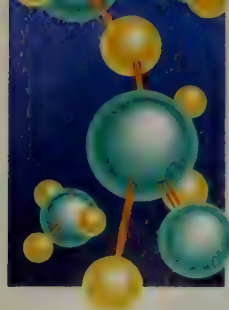
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Chemicals

The chemical industry started to rebound in 1992. This year it should do even better.

By Randall Lane

The highly cyclical chemical industry always performs well during the early stages of a recovery. So it's not surprising that profits jumped an estimated 12% last year, to \$23 billion, on slightly higher sales of \$301 billion. That's after a two-year decline in profits.

Larger orders from automobile, steel, textile, rubber and plastics manufacturers drove the increase. Chemical plants are currently operating at 81% of capacity, versus 79% a year ago. Which companies had the best results last year? Specialty chemical companies, which buy feedstock chemicals and refine them into higher-value compounds. These firms have been taking advantage of the lower cost of commodity chemicals. Over a dozen of them posted record profits, including Nalco Chemical, Great Lakes

Chemical and Sherwin-Williams.

The chemical industry has long been an export leader, but its trade surplus may have peaked in 1991, mainly because new petrochemical facilities came on stream in Asia. The 1992 chemical trade surplus was an estimated \$17.5 billion—still second only to aircraft in the manufacturing sector but down from a record \$18.8 billion in 1991. The surplus is expected to shrink further in 1993. One area for optimism: U.S. companies share about 50% of the chemical market in Latin America, notably Mexico. Industry experts hope exports will grow in step with these economies, offsetting the sales lost to Asia.

The laggards? Providers of commodity chemicals. Firms like Quantum Chemical and Sterling Chemicals contin-

Chemicals	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital		Sales		Earnings per share				
	5-year average	latest 12 mos	latest 12 mos	Debt/capital	5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company	%	%	%	%	%	%	%	%			
Diversified											
Valspar	22.7	23.1	19.2	14.8	9.0	8.1	14.8	24.1	683	34	5.0
Dow Chemical	21.6	4.2	5.6	34.1	11.6	-3.0	NM	-69.3	18,815	410	2.2
A Schulman	20.2	18.9	17.8	3.1	8.9	-0.5	17.3	3.3	732	44	6.0
Rohm & Haas	15.2	14.3	10.3	27.0	6.6	6.6	NM	26.7	2,966	217	7.3
Imperial Chemical Inds	13.6	5.7	NA	22.2	8.1	-0.9	-5.5	-30.4	23,425	NA	NA
El du Pont de Nemours	13.1	6.9	5.4	26.1	7.8	-4.4	NM	-45.7	37,928	1,157	3.1
Monsanto	12.7	10.2	7.9	25.6	5.3	-10.2	NM	56.5	8,024	402	5.0
Rhone-Poulenc	11.0	5.7	NA	33.0	14.3	4.7	-16.3	D-P	16,529	NA	NA
Univar	10.1	4.4	3.5	50.1	14.6	23.3	NM	500.0+	1,747	7	0.4
Olin	8.8	7.6	6.5	32.8	7.1	4.2	NM	D-P	2,418	60	2.5
Quantum Chemical	7.3	NE	1.3	93.3	5.2	-11.4	NM	D-D	2,325	-105	def
BF Goodrich	6.6	def	def	26.6	NM	3.2	NM	P-D	2,519	-89	def
Hercules	5.9	8.4	6.9	17.9	3.4	-5.3	-23.1	156.3	2,878	160	5.6
First Mississippi	4.4	def	1.5	38.9	14.9	-6.7	-33.2	P-D	505	-1	def
FMC	NE	59.7	19.0	64.6	5.4	2.8	16.6	11.9	3,979	193	4.8
Union Carbide	NA	0.2	3.0	37.5	NM	-4.7	NM	D-P	4,836	21	0.4
Medians	11.0	6.3	6.0	29.9	7.4	-0.7	NM	18.0	2,922	52	2.8
Specialized											
Lyondell Petrochem	100.0†	24.8	8.3	83.0	14.9	-22.4	NA	-88.9	4,936	30	0.6
Vigoro	53.1	26.8	16.6	34.8	10.7	2.5	11.0	10.6	596	44	7.3
Freeport-McMoRan	46.9*	41.5	9.9	47.4	9.6	0.8	-12.2*	215.7	1,612	176	10.9
Sterling Chemicals	41.2	3.9	3.5	38.7	NM	-20.7	-20.3	-88.1	431	5	1.1
Georgia Gulf	39.0	NE	33.7	148.5	8.0	-13.6	NM	-31.3	765	50	6.5

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

Tough in the clutch

Like most diversified chemical companies, Rohm & Haas Co. performs best when the economy is growing. But even during a recession this Philadelphia-based firm has been able to avoid a significant earnings decline. Rivals such as Dow Chemical and Union Carbide can't make the same boast.

In 1992 Rohm & Haas earned an estimated \$240 million on \$3 billion in revenues. Its return on capital was 10.3%, making it one of the most efficient companies in the business. One big reason is that Rohm & Haas Chairman J. Lawrence Wilson, 56, runs a cost-conscious operation and isn't afraid to buck the consensus. In 1989, for example, it spent \$200 million increasing production capacity for two primary building-block chemicals—acrylic acid and methyl methacrylate (MMA). This despite an impending worldwide glut.

"I thought it [the expansion] looked stupid," recalls Smith Barney chemical analyst James Wilbur. But Chairman Wilson saw steady demand and, as the industry's low-cost producer, preferred making the compounds to buying them. Wilson's judgment proved sound: The Houston facilities were running near full capacity from day one.

On the other hand, Rohm & Haas doesn't make acetone (a solvent that it converts into MMA), even though it consumes 25% of the U.S. production. Why? Because ace-

tone is a by-product of phenol production and can be purchased cheaply from others. Because of its size, Rohm & Haas is able to get all the acetone it needs for about 15 cents a pound, well below the spot price of about 24 cents. The same is true for propylene, which is currently in oversupply. "We are much better off putting our money into materials where we add value," says Wilson.

Research efforts are concentrated on finding

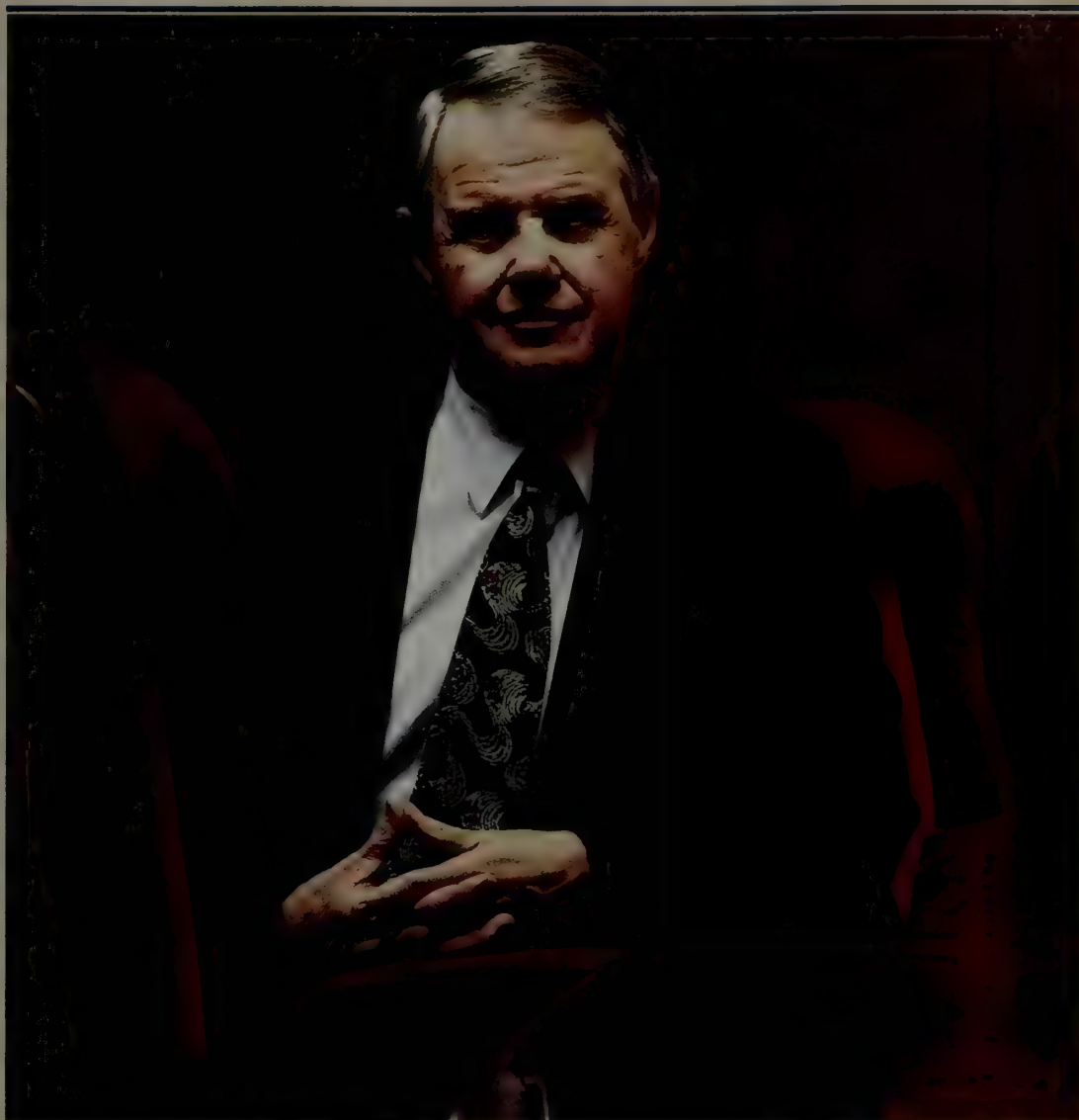
new uses for existing compounds. In 1953, for example, Rohm & Haas introduced a process that allows water to replace solvents in paints. This environmentally friendly line has grown over 10% annually since the mid-1980s. In the early 1980s Rohm & Haas scientists discovered that the same acrylic acids can also be used in superabsorbent diapers. In 1986 the company sold 6.4 million pounds of superabsorbent polymers. Five years later it sold

104 million pounds.

How about acquisitions? The firm spent \$175 million in May for a Unocal Corp. subsidiary that makes vinyl acrylics. In 1992 the company also completed a joint venture with Elf Atochem, a similar French company, which will enable Rohm & Haas to cut costs, expand globally and share technology.

Wilson hopes these acquisitions will help insure that the next economic downturn is as pain-free as the past one. —R.L.

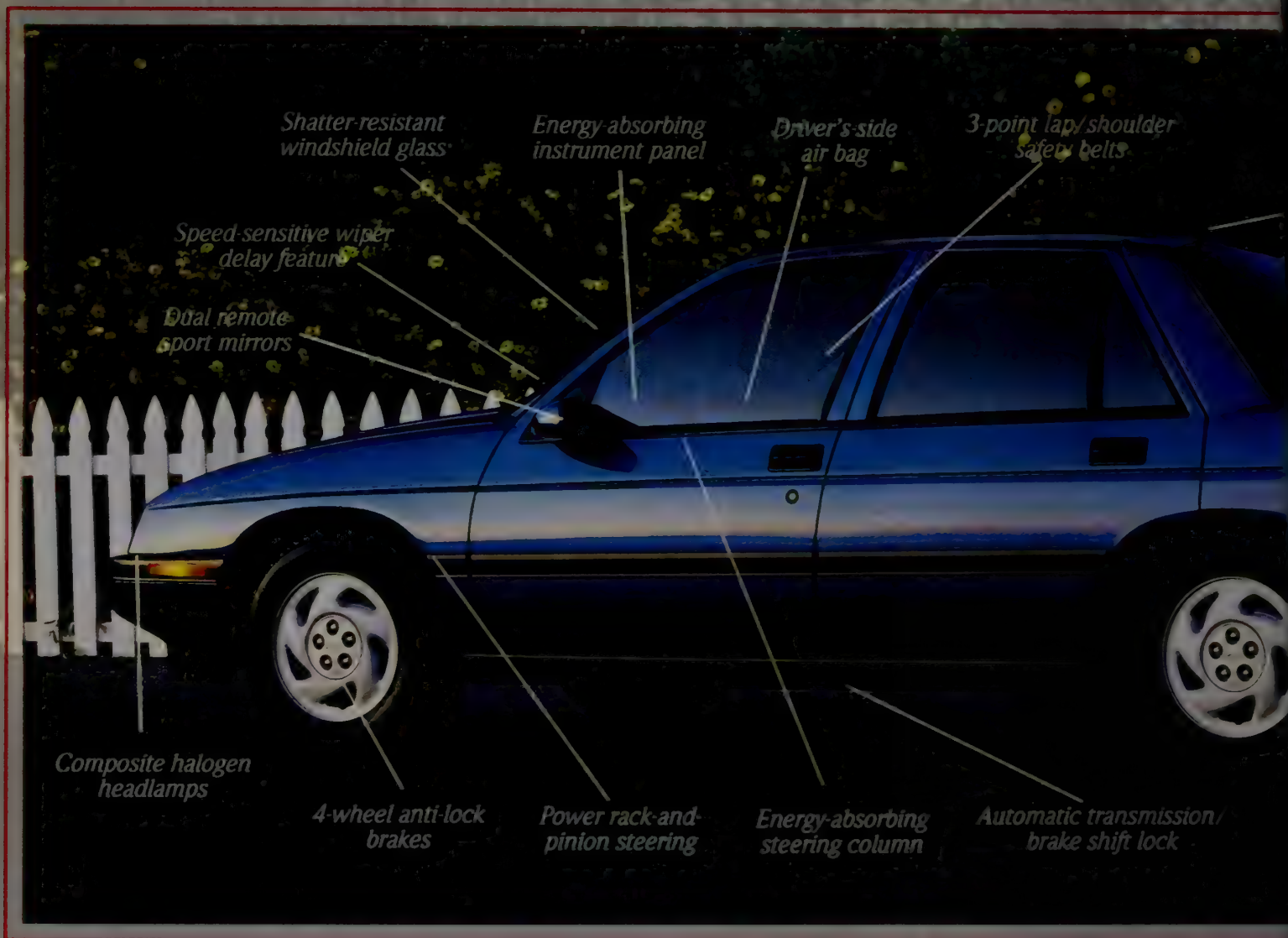
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Rohm & Haas Chairman J. Lawrence Wilson

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ued to suffer from an overcapacity in petrochemicals like ethylene and styrene. Diversified giants such as Dow Chemical and Union Carbide were also hurt by this soft market.

Chemical producers are optimistic about their prospects for this year. According to a survey of 87 companies by the Chemical Manufacturers Association, the overall forecast calls for an 8% increase in sales and a 13% gain in profits.

Some of the largest chemical companies—including many of the producers hit hardest over the past two years—expect to post earnings gains of around 20%.

Furthermore, producers hope an investment tax credit and other pro-manufacturing policies will come out of the Clinton Administration. And if negotiators conclude free trade agreements in North America and Europe, U.S. chemical companies are well positioned to benefit. ■

Chemicals	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos			
Company	5-year average %	latest 12 mos %	%	%	5-year average %	latest 12 mos %	%	%	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Crompton & Knowles	27.2	31.6	20.7	30.0	16.8	11.1	32.6	18.4	490	41	8.5
Nalco Chemical	26.7	25.0	15.2	20.6	11.4	10.0	17.7	3.9	1,351	142	10.5
Sigma-Aldrich	24.4	19.8	17.3	5.6	18.8	9.9	18.4	15.1	622	88	14.1
Loctite	24.3	19.6	18.9	6.3	13.5	7.1	22.9	1.0	603	71	11.8
Wellman	24.1	11.7	8.8	33.7	37.8	1.7	24.1	16.3	824	52	6.3
Great Lakes Chemical	23.5	23.5	21.5	6.0	33.5	10.9	36.3	36.1	1,414	211	15.0
Betz Laboratories	23.5	23.3	21.0	0.0	14.5	7.3	17.2	11.3	700	81	11.5
Ethyl	22.7	19.4	12.2	38.9	11.9	8.0	9.4	5.3	2,800	236	8.4
Lubrizol	20.2	17.6	16.5	3.7	9.5	6.1	17.1	13.2	1,568	140	8.9
Intl Flavors & Frags	19.6	19.2	19.0	0.0	9.8	8.6	13.6	10.5	1,098	186	17.0
NCH	18.8	15.2	15.0	3.5	9.8	-0.1	17.2	-7.3	677	40	5.9
Sherwin-Williams	17.7	16.8	14.9	6.3	9.7	7.5	6.0	15.3	2,694	148	5.5
RPM	17.6	16.8	11.5	49.8	13.8	18.7	12.0	8.1	588	36	6.2
Stepan	16.8	17.4	9.6	41.8	9.8	5.5	10.7	34.6	432	16	3.7
Air Prods & Chems	15.6	15.0	10.0	26.9	8.0	9.8	9.5	10.1	3,217	277	8.6
Morton International	13.7	12.4	10.8	14.3	13.9	9.2	6.6	4.9	2,107	147	7.0
IMC Fertilizer Group	13.3*	13.5	8.3	43.2	2.8	-9.2	NM	2.8	1,021	89	8.8
WR Grace	13.0	def	def	46.4	11.1	-11.5	4.4*	P-D	5,648	-100	def
HB Fuller	12.4	15.8	12.8	18.7	10.0	9.0	NM	29.2	911	35	3.9
Cabot	12.2	12.6	9.1	32.0	NM	5.1	19.6	-40.6	1,557	62	4.0
Akzo	11.8	7.6	NA	18.6	6.6	2.8	-7.1	-13.4	10,207	NA	NA
MA Hanna	11.2	12.4	8.1	47.6	47.6	15.5	-33.1*	459.5	1,288	42	3.3
Witco	10.8	11.4	9.7	19.6	3.9	0.6	NM	14.4	1,663	75	4.5
Dexter	8.4	6.0	6.2	31.1	6.8	3.3	NM	44.4	963	19	2.0
Ferro	7.9	15.2	13.7	12.2	8.1	2.7	NM	D-P	1,102	55	5.0
NL Industries	7.0†	NE	1.9	89.3	2.4	2.0	NM	D-D	890	-26	def
Grow Group	2.3	17.7	12.0	55.5	-2.0	-2.3	NM	D-P	408	10	2.5
Terra Industries	def	18.1	12.6	30.8	NM	0.1	NM	D-P	1,063	32	3.1
Intl Specialty Prods	NA	13.0	9.2	42.8	11.5	5.7	NA	26.0	559	64	11.5
Praxair	NA	19.6	11.8	30.0	11.3*	NA	NA	NA	2,584	130	5.0
Rexene	NA	NA	NA	78.3	NM	-13.0	NA	NA	415	NA	NA
Medians	17.7	16.8	11.9	30.9	9.8	5.1	8.0	11.0	1,042	59	6.2
Industry medians	14.4	14.3	10.1	30.9	9.5	2.8	-9.7	11.6	1,383	58	5.0
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.



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Computers & communications

For years, nimble PC clonemakers have nibbled away at IBM and other industry leaders. In 1992 the giants fought back.

By Julie Pitta

IBM and Digital Equipment Corp. took further steps in the painful process of restructuring these once proud giants. The changes have been slow: IBM Chairman John Akers announced a year ago that he would split up the computer giant into a loose collection of subsidiaries and offer buyouts to surplus employees. At IBM—like DEC—more ruthless action seems necessary: Akers is rumored to be looking at selling factories and other assets relating to IBM's ailing mainframe business and considering layoffs. DEC founder Kenneth Olsen abruptly resigned and the company laid off more than 10,000 people last year.

On the PC front, the big computer makers are finally doing something about the inroads made by low-cost clone vendors. IBM unveiled its ValuePoint line of lower-priced personal computers. They are to be sold in discount stores

and by telephone. So far, the results have been encouraging. By one estimate, about 400,000 units worth some \$650 million were shipped in the fourth quarter of last year. Similarly, Compaq Computer is turning itself around and finding happiness opting for a low-cost strategy. The Pro-Linea PC line Compaq introduced last June has emerged as its bestselling desktop ever. Despite all its turmoil, Digital made a serious attempt to become a bigger player in personal computers by designing a line of inexpensive IBM compatibles and selling them by telephone.

Did anybody in the computer industry prosper last year? After taking a pounding from the Japanese in the mid-Eighties, U.S. semiconductor manufacturers rebounded, led by Intel and Advanced Micro Devices (*see box*). In software, Microsoft broadened its reach. Its Windows 3.1

Mr. chips

Chasing after an industry leader is only for the fleet of foot. Just ask W. Jeremiah (Jerry) Sanders, Advanced Micro Devices chairman and chief executive.

In late 1992, for example, Advanced Micro lost a court battle with archrival Intel Corp. The ruling prevents AMD from copying Intel's microcode in its clone of Intel's 486 microprocessor. But Sanders had a backup plan: He has two versions of the 486, one using Intel's software and the other with software AMD has nearly finished writing from scratch.

Selling AMD versions of Intel chips is old hat to Sanders. Intel's 80386 microprocessor is probably the most lucrative chip in the history of the semiconductor industry. When Sanders predicted that he would successfully copy the chip and take a chunk of business away from Intel,

there were many doubters. *FORBES* (Oct. 28, 1991) was among them. But Sanders backed up his characteristic bravado with results: By shipping over \$750 million of its version of the 386, AMD reversed its sagging fortunes.

When AMD brought its first 386 clone to market in the first quarter of 1991, it marked the end of a herculean effort. About five years ago Sanders began streamlining the company to give R&D a sharper focus and improve the cost-effectiveness of manufacturing. Advanced Micro's manufacturing is now considered among the best in the chip industry.

"Intel likes to say that no one can compete with them because of the amount of money they spend on development," Sanders says. "We've proven we can do what they do, only cheaper."

AMD's cost-cutting has come in handy, as it has had

to spend about \$12 million a year defending itself against Intel's lawyers.

"The one constant at AMD besides R&D is litigation," complains Sanders. "Intel uses litigation as a marketing tool."

While not afraid to meet Intel in the courts, Sanders has avoided going head-to-head with Intel in the marketplace. Instead, AMD's 386 chips fill in gaps in Intel's product line. For example, AMD sells a version of the 386 well suited for notebook PCs because it drains battery power less than Intel's chip.

Intel, of course, has responded to AMD's challenge. Intel's next-generation chip should be ready early this year. And it has cut prices aggressively and pushed less expensive "sx" versions of its 486 to try to lure customers into its 486 family of chips.

Thanks to Intel's recent court victory, AMD's shipment of a 486 clone



AMD's W. Jeremiah Sanders
Chasing Intel.

could be delayed until mid-year, at least six months after Sanders had hoped. Sanders now warns that AMD's 1993 sales and operating income will be flat.

But don't count Sanders out. "I know of no scenario where AMD won't be a player in this market," he says. "We're junkyard dogs. We never deviate from our objective."

—J.P. ■

Computers & communications

Company	Return on equity		Return on capital		Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %	latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Major systems											
Dell Computer	33.8	28.9	27.3	12.1	61.9	117.7	44.3	72.7	1,679	86	5.1
Apple Computer	30.4	29.0	23.3	0.0	19.6	12.3	13.3	67.8	7,087	530	7.5
Compaq Computer	29.5	9.9	8.7	3.4	40.3	4.4	21.2	1.3	3,551	190	5.4
AST Research	22.9	17.8	16.4	0.6	30.5	37.9	NM	-17.5	1,033	60	5.8
Stratus Computer	21.9	17.6	18.2	0.3	29.4	9.2	24.8	20.3	479	57	12.0
Cray Research	18.9	9.1	8.8	12.4	6.9	10.7	NM	-19.3	887	71	8.0
Sun Microsystems	16.2	10.9	10.3	17.4	45.8	11.8	26.7	-19.9	3,690	151	4.1
Hewlett-Packard	14.3	13.0	12.5	5.0	16.1	11.8	7.9	11.9	15,918	948	6.0
Amdahl	12.5	def	def	9.9	12.3	10.9	32.8	P-D	2,170	-28	def
Intergraph	11.6	3.6	3.5	2.8	15.1	-0.4	2.4	-62.5	1,182	27	2.3
IBM	8.6	def	def	26.2	5.5	1.9	NM	P-D	67,045	-2,784	def
Harris Corp	6.5	8.2	7.4	35.6	10.0	1.3	NM	464.1	3,046	86	2.8
Tandem Computers	4.4	def	def	6.5	14.2	6.0	NM	P-D	2,037	-41	def
SCI Systems	4.2	3.3	3.9	52.8	13.7	7.1	-34.3	328.6	1,156	6	0.5
Silicon Graphics	2.0	def	def	5.4	57.3	47.8	NM	P-D	914	-80	def
Teradyne	0.3	7.7	7.9	7.7	9.5	6.4	NM	158.6	531	25	4.7
Itel	def	def	2.9	83.0	34.6	2.9	NM	D-D	1,778	-76	def
Raychem	def	def	def	22.9	5.9	6.3	NM	D-D	1,341	-20	def
Data General	def	def	def	26.7	-3.0	-9.2	NM	P-D	1,116	-63	def
Tandon	def	def	def	27.3	15.9	-19.0	NM	D-D	375	-62	def
Digital Equipment	def	def	def	0.8	7.6	-1.1	NM	D-D	13,952	-2,583	def
Unisys	def	10.7	9.0	45.6	2.7	-5.9	NM	D-P	8,628	276	3.2
Wang Laboratories	def	def	def	82.6	-9.0	-9.3	NM	D-D	1,896	-139	def
Medians	6.5	3.6	3.9	12.1	14.2	6.3	NM	-19.9	1,778	25	2.3
Peripherals & equipment											
Conner Peripherals	36.8	17.8	13.5	44.9	100.3*	27.2	50.0*	-0.5	2,035	126	6.2
Quantum	26.1	20.2	22.8	37.4	60.4	33.9	51.5†	9.3	1,363	66	4.9
Soletron Corp	24.2	23.6	28.4	56.8	45.7	53.3	36.2	25.7	407	14	3.6
Intel	22.6	18.0	17.2	6.8	28.9	12.4	26.2*	2.1	5,192	827	15.9
Tech Data	20.9	19.2	18.1	8.6	51.8	57.4	20.4	49.0	895	18	2.0
Anthem Electronics	19.5	18.5	19.2	0.0	24.1	23.1	49.7	25.0	500	29	5.7
AMP	17.9	14.9	14.0	2.3	9.6	6.5	8.1	8.1	3,283	283	8.6
Merisel	16.3	12.7	19.1	36.9	49.6	37.0	NM	195.5	2,021	18	0.9
Vishay Intertech	16.2	12.4	10.9	51.4	61.1	35.6	15.1	5.0	610	25	4.2
Thomas & Betts	15.8	11.1	13.3	50.1	10.4	62.2	NM	-19.7	930	43	4.6
Marshall Industries	14.5	12.5	11.1	16.6	13.7	2.8	18.2	29.2	590	21	3.6
Molex	13.8	11.8	11.5	1.1	13.9	11.1	7.9	12.7	804	71	8.8
Storage Technology	13.6	6.7	6.8	29.0	17.0	9.3	NM	-41.1	1,583	60	3.8
Applied Materials	13.4	11.3	9.7	25.1	29.8	17.7	-8.8	43.4	751	39	5.3
Motorola	12.7	11.4	10.2	19.7	15.0	12.4	17.2	20.6	12,631	528	4.2
Micron Technology	11.9	1.3	2.0	10.1	30.5	19.0	NM	30.8	506	7	1.3
Dynatech	11.1	8.2	7.5	33.1	9.7	5.2	-7.4	7.6	502	13	2.6
Seagate Technology	10.7	20.5	15.1	25.0	26.8	12.4	-17.9	500.0+	2,998	171	5.7
Wyle Laboratories	9.7	11.3	9.4	24.3	7.6	16.4	19.5	30.0	518	13	2.6
Varian Associates	8.0	9.0	8.0	10.8	5.2	-6.5	19.9	-30.8	1,288	39	3.0
Avnet	7.3	6.8	6.4	11.3	1.3	9.6	13.8	2.6	1,879	56	3.0
Advanced Micro	5.0	35.0	33.7	3.0	6.3	31.4	NM	D-P	1,480	282	19.1
Analog Devices	3.6	1.3	2.0	14.8	9.6	1.2	-17.1	D-P	551	5	1.0
3Com	3.3	3.5	3.0	0.7	19.6	19.5	-25.0	D-P	453	7	1.6
Arrow Electronics	3.3	18.2	10.8	38.1	15.2	62.3	NM	D-P	1,515	42	2.8
Bell Industries	3.1	1.1	3.1	34.9	1.3	5.7	-27.6	D-P	420	1	0.2
Atari	2.9	def	def	42.1	NM	-36.9	NM	P-D	198	-56	def
Tektronix	1.5	3.7	4.0	14.7	-1.6	-0.3	NM	-67.1	1,313	16	1.2
M/A-Com	1.4	10.3	8.3	34.5	-3.4	-1.8	NM	-60.3	375	12	3.2
VLSI Tech	1.0	def	def	36.0	28.3	5.7	NM	P-D	418	-5	def

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.
Sources: Forbes; Value Line Data Base Service via Lotus One Source.

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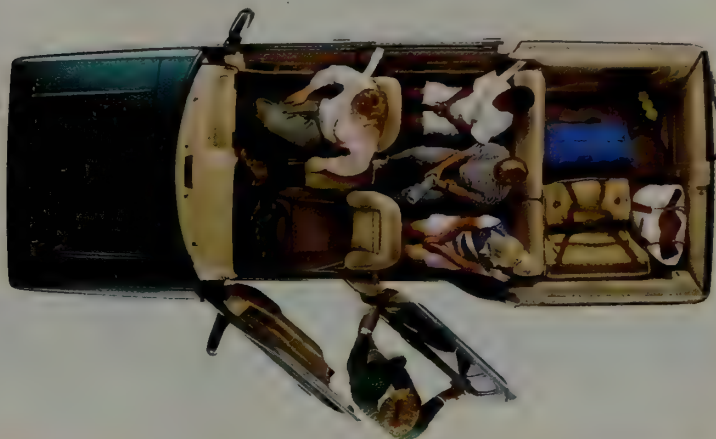
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N AN EXPLORER.

graphical software was a big hit: It sold at a rate of more than 1 million units a month in 1992. The company is now putting the finishing touches on a new, high-end version of Windows. Some envious competitors are striking back by cooperating with the Federal Trade Commission's probe of Microsoft's business practices.

In telecommunications, AT&T agreed to buy a third of

McCaw Cellular Communications, the U.S.' largest cellular carrier. This will give AT&T access to the local markets it had to give up in the 1984 divestiture. The McCaw deal, with AT&T's decision to sell hand-held computers equipped with radio chips, signaled its interest in wireless communications. And late last year shareholders of Centel and Sprint agreed to a merger of the two firms.

Computers & communications	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital	Debt/capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos			
	Company	%	%	%	%	%	%	%	%	\$mil	\$mil
Maxtor	def	41.0	26.1	34.8	43.9	28.7	-20.8	D-P	1,247	74	6.0
Texas Instruments	def	3.1	3.9	32.3	6.1	6.1	NM	D-P	7,205	85	1.2
LSI Logic	def	def	def	30.1	31.2	-13.5	NM	D-D	621	-116	def
Applied Magnetics	def	def	def	10.7	9.5	-34.6	NM	D-D	298	-25	def
Natl Semiconductor	def	10.8	11.2	5.4	-4.3	6.5	NM	D-P	1,779	70	3.9
Western Digital	def	def	def	65.8	13.3	8.7	NM	D-D	1,010	-31	def
Hall-Mark Electronics	def†	18.0	13.6	54.7	3.9*	NA	NA	NA	664	16	2.4
General Instrument	NA	NA	NA	78.2	NA	NA	NA	NA	NA	NA	NA
Medians	9.7	11.3	10.2	27.0	13.9	11.7	-19.3	16.7	895	25	3.0
Software											
Microsoft	45.9	39.5	43.6	0.0	50.0	45.8	52.0	42.5	2,996	773	25.8
Novell	35.4	37.8	37.9	0.1	48.0	45.0	55.4	52.5	860	230	26.7
Oracle Systems	20.6	17.0	16.2	17.7	54.9	17.3	24.8	220.0	1,241	69	5.6
Computer Associates	20.5*	18.1	14.4	4.3	13.7*	26.2	55.7*	31.2	1,688	178	10.6
Lotus Development	20.0	21.0	16.5	21.1	22.8	17.9	-8.9	500.0+	903	72	7.9
Policy Management Sys	14.4	11.4	10.6	1.1	23.0	20.5	21.4	14.5	478	57	11.8
Mentor Graphics	2.4	def	def	16.4	20.2	-8.1	NM	D-D	374	-50	def
ASK Computer Systems	def*	def	def	15.0	33.9	19.2	NM	D-D	441	-51	def
Borland Intl	def†	def	def	4.9	8.2*	-7.0	NM	D-D	474	-12	def
Computervision	NA	NA	def	82.3	6.6*	-8.3	NA	NA	1,132	-265	def
Medians	20.0	17.0	12.5	10.0	22.9	18.6	21.4	31.2	882	63	6.8
Telecommunications											
MCI Communications	28.6	21.7	11.4	46.8	23.0	NA	46.7*	9.7	10,243	593	5.8
Centel	18.6	8.5	6.2	43.9	-4.0	1.7	NM	-33.5	1,186	100	8.5
Alltel	18.2	17.6	11.1	38.7	22.2	18.5	13.5	-1.7	2,007	213	10.6
Citizens Utilities	17.6	15.4	10.4	35.5	17.2	-9.2	11.3	5.5	587	118	20.0
Sprint	16.9	15.7	8.7	51.4	27.5	3.2	-12.6†	18.6	9,015	407	4.5
Corning	16.3	16.9	13.3	24.6	12.1	15.4	12.1	13.2	3,699	342	9.2
GTE	15.5	16.0	8.3	44.0	5.5	5.0	3.1	16.2	20,080	1,888	9.4
Ameritech	15.1	13.9	8.9	25.5	3.2	2.6	2.6	-4.4	11,052	1,210	11.0
Northern Telecom	14.4	13.2	11.0	20.1	12.9	5.4	12.2	1.5	8,175	501	6.1
Bell Atlantic	13.7	14.2	8.8	36.4	4.2	1.7	2.3	-11.0	12,491	1,295	10.4
Pacific Telesis	13.6	12.5	8.0	29.8	2.0	0.3	2.0	-3.7	9,902	1,017	10.3
Rochester Telephone	13.5	11.3	7.3	44.9	11.8	18.2	4.6	-12.3	788	67	8.5
Cincinnati Bell	13.5	8.3	6.4	35.4	17.2	2.2	NM	5.1	1,123	55	4.9
Southwestern Bell	12.8	13.6	8.2	27.6	3.6	6.0	2.3	14.1	9,816	1,268	12.9
BellSouth	12.7	12.1	7.9	26.6	4.9	4.1	-1.3	13.4	14,986	1,692	11.3
So New Eng Telecom	12.5	11.7	7.1	33.4	2.9	-0.7	NM	13.8	1,618	148	9.1
US West	11.3	6.4	4.7	32.4	5.1	4.1	-6.6	-48.3	10,624	649	6.1
American Tel & Tel	10.8	20.4	12.9	27.1	0.5	1.1	NM	372.7	63,863	3,442	5.4
Nynex	9.4	7.6	5.4	32.2	3.4	-2.5	-12.8	-21.8	13,087	736	5.6
Scientific-Atlanta	8.4	6.9	7.0	0.6	2.4	26.5	NM	D-P	624	21	3.3
Comsat	6.8	7.0	4.7	40.7	4.8	10.1	NM	D-P	548	42	7.6
DSC Communications	def	def	1.3	55.2	11.6	-3.2	NM	D-D	487	-10	def
McCaw Cellular	def	def	0.8	66.7	79.3	26.6	NM	D-D	1,628	-407	def
Medians	13.5	12.5	8.0	35.4	5.1	3.6	-1.3	5.1	8,175	407	11.5
Industry medians	12.2	11.0	8.3	25.8	13.7	6.5	-17.1	7.6	1,288	56	4.2
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95. Sources: Forbes; Value Line Data Base Service via Lotus One Source.

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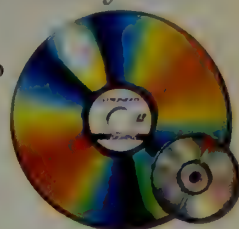
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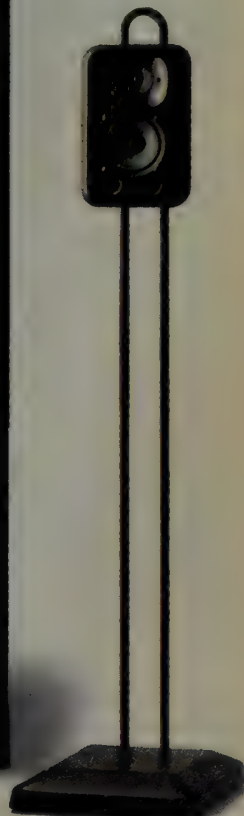
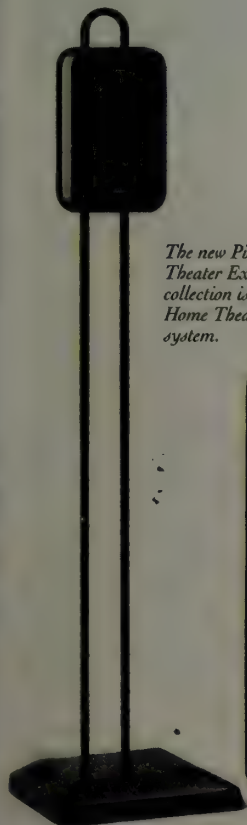
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Construction

A wobbly economic recovery helped the construction industry turn the corner in 1992. This year's outlook for housing and highway building looks pretty good.

By Claire Poole

Thanks largely to a 21% increase in single-family housing starts—to 960,000 units—the total of new construction contracts rose an estimated 6%, to \$248 billion last year. Robert Murray, chief economist of McGraw-Hill's Construction Information Group, expects that contracts will rise another 8% this year, to \$267 billion. Says he: "The greatest potential for expansion will once again be coming from housing and highways."

Murray is projecting a 9% gain in single-family housing starts this year, to just over 1 million units. Leading the rebound last year were South Central states like Texas, Arkansas and Tennessee. That trend should continue this year, with about a 19% growth in this region. Next most active region: the South Atlantic states, where Florida is busily rebuilding in the wake of Hurricane Andrew. About a 16% gain is expected. That's good news for regional

builders such as Centex, Ryland and especially Lennar, which has the lion's share of the south Florida market. An estimated 11% improvement is expected in the Northeast and North Central states, which will help PHM Corp. But Kaufman & Broad Home and Standard Pacific may have to endure another year of a weak market in the West.

A turnaround could come this year in multifamily housing. Last year multifamily home building hit bottom with its lowest volume in 30 years with an estimated 165,000 units under contract. McGraw-Hill's Murray is expecting a 6% recovery in multifamily housing in 1993.

Housing rebounds help other businesses, too, of course. Masco Corp., a maker of home furnishings and kitchen and bathroom products; Ply Gem Industries, a manufacturer of wood paneling, windows and patio doors; and Owens-Corning, a supplier of insulation and roofing

Construction Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Commercial builders											
Jacobs Engineering	23.5	24.2	24.5	0.0	23.0	6.8	41.2	29.1	1,106	27	2.4
Fluor	16.5	14.0	12.4	8.3	12.0	-7.2	67.3*	-7.9	6,538	144	2.2
Granite Construction	15.0	4.6	4.8	18.3	10.0	-6.7	10.3	-62.4	535	8	1.4
Apogee Enterprises	14.3	3.7	4.1	17.6	18.9	-2.7	NM	-71.6	580	4	0.7
Blount	7.9	0.8	3.0	33.1	-14.8	10.4	NM	D-P	685	1	0.2
CBI Industries	7.7	9.5	9.1	20.7	7.8	3.4	47.7	25.3	1,660	74	4.4
Foster Wheeler	7.4	8.9	6.4	42.7	10.2	16.7	31.8	14.4	2,281	48	2.1
Morrison Knudsen	4.4	2.9	3.3	32.3	NM	10.7	NM	-75.2	2,112	11	0.5
Perini	2.4	3.1	3.4	28.3	6.0	8.1	-28.8	D-P	1,060	5	0.6
Turner Corp	2.3	def	3.7	51.8	2.6	-4.2	NM	D-D	2,647	0	0.0
Forest City Enterprises	1.4	def	3.0	91.6	36.1	5.5	NM	D-D	430	-9	def
Butler Manufacturing	0.8	def	def	60.4	-4.2	4.3	NM	D-D	490	-6	def
Guy F Atkinson	def	1.1	1.2	2.6	-4.3	-24.9	NM	D-P	539	1	0.2
Medians	7.4	3.1	3.7	28.3	7.8	4.3	NM	-7.9	1,060	6	0.6
Residential builders											
Kaufman & Broad Home	18.7	8.6	7.0	36.4	19.8	-19.6	NM	48.1	1,027	27	2.6
Ryland Group	14.1	7.2	6.2	40.0	3.8	15.3	-20.6	88.7	1,390	22	1.6
PHM	13.0	18.2	12.9	22.3	NM	8.9	27.8	154.4	1,276	69	5.4
Centex	9.8	8.9	7.4	28.0	11.9	4.6	NM	67.8	2,272	48	2.1
Lennar	9.1	8.3	5.0	30.9	NM	25.5	NM	27.7	404	25	6.1
Skyline	5.7	4.4	4.4	0.0	NM	18.5	-17.6	48.8	371	7	1.9
MDC Holdings	def	2.4	5.6	59.9	-10.0	13.9	NM	D-P	479	4	0.9
US Home	def	19.9	6.4	63.4	-8.0	26.3	NM	D-P	635	15	2.4
Medians	9.5	8.5	6.3	33.7	-9.0	14.6	NM	78.3	831	24	2.2

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

Mundane business, exceptional results

Making crushed stone for concrete isn't a very glamorous business. But who cares about glamour if you're \$1.1 billion (estimated 1992 sales) Vulcan Materials, the nation's largest and most profitable aggregates producer.

Credit Herbert Sklenar, 61, for Birmingham, Ala.-based Vulcan's brisk growth and tight focus. When Sklenar took over as Vulcan's president in 1983, the company had sales of only \$820 million and was hobbled by unrelated and marginal units like oil and gas ex-

ploration and scrap metals. Sklenar enlarged Vulcan's existing rock-crushing facilities, bought up the operations of weaker competitors and dumped the marginal businesses.

In 1988 Vulcan celebrated a record year, with net earnings of \$136 million on \$1 billion in sales. Its return on equity hit 22%. But Sklenar wasn't in a mood for celebration. He saw the slump coming in construction and knew that materials companies would be next to feel the domino effect.

So Sklenar put Vulcan on a diet. In the past two years he's trimmed 300 jobs from the 6,600-person payroll, frozen salaries

and bonuses, and cut back on overtime and shift lengths. In 1991 he cut capital spending by 46%. Vulcan survived the recession with shaved earnings but no losses. Merrill Lynch analyst Jonathan Goldfarb is expecting earnings to rise to \$106 million this year, up 20% from an estimated \$88 million in 1992.

Belt-tightening is only one reason for Vulcan's success. A decentralized approach to customer service is another. Each of its 134 quarries has its own quality control and salespeople, who follow a job from design to usage.

Sklenar continues to look for new markets. In

1990 Vulcan began shipping aggregates to Gulf Coast markets from Mexico's Yucatan peninsula, where the company operates a \$200 million quarry and port facility in partnership with Mexican construction firm Grupo ICA. This year the operation will probably increase its production 25%, to 5 million tons—and turn a profit.

Last year Sklenar, who started at Vulcan 20 years ago as a vice president of finance, replaced the retiring Houston Blount, 70, as Vulcan's chairman. Says Sklenar: "We're satisfied working with mundane materials. But we're not satisfied with mundane results." —C.P. ■



Herbert Sklenar, chairman of Vulcan Materials, at the company's Birmingham quarry
Turning a very unglamorous business into a very profitable one.

materials, should all do well this year.

Public works contracts, after an estimated 5% gain in 1992, should expand 9% this year. Up to \$155 billion in federal funding will be available over the next five years for transportation-related construction, with almost \$120 billion earmarked for highways. Companies such as Morrison Knudsen, which builds bridges, highways, railways and tunnels, and Vulcan Materials, the largest U.S. producer of construction aggregates (*see box, p.121*), will gain further if the new Administration follows through on its promise to rebuild infrastructure.

The outlook isn't as bright for other segments of the construction industry. Commercial construction—offices, hotels, shopping centers—fell more than 50% from

its 1985 peak to an estimated \$43 billion in contracts in 1992. This might improve, but only slightly, this year.

Office building, after a sharp 75% decline between 1985 and 1991, finally stabilized last year at an estimated 85 million square feet and will probably remain flat this year. Past overbuilding has kept vacancy rates at about 19% in central business districts as well as suburbia. Industrial construction, after dropping another 12% last year, is expected to finally rise 3% in 1993, to \$7.3 billion.

In the 1980s the building of schools, health care facilities, prisons and other institutions grew steadily. But that kind of construction flattened out in 1992 and isn't expected to improve much soon. Look for housing and highways to fuel the construction industry this year. ■

Construction Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Cement & gypsum											
Vulcan Materials	16.3	10.2	8.5	12.6	2.4	3.7	NM	-5.7	1,062	69	6.5
CalMat	12.3	0.1	0.4	9.0	-9.8	-12.2	NM	-98.9	339	0	def
Florida Rock Inds	11.2	3.2	3.3	16.6	5.1	-12.6	-31.3	118.5	275	6	2.0
Ameron	8.2	5.2	5.2	38.6	9.6	-4.8	-4.4	-2.5	445	7	1.7
Lafarge	6.0	def	0.3	42.6	10.1	-6.8	NM	D-D	1,511	-32	def
USG	5.1	NE	def	445.1	-9.7	0.6	NM	D-D	1,758	-174	def
Southdown	3.9	def	def	39.8	10.5	-1.3	NM	D-D	505	-38	def
Holnam	def	def	def	52.0	8.4	-3.4	NM	D-D	957	-95	def
Dravo	def	def	3.1	48.0	-10.2	-4.8	NM	D-D	279	1	0.3
Medians	6.0	def	0.4	39.8	5.1	-4.8	NM	D-D	505	0	def
Other materials											
Waxman Inds	10.9	def	5.2	84.2	30.7	-1.4	NM	P-D	381	-3	def
Masco Corp	9.3	6.1	5.7	43.3	17.0	10.3	-25.7	170.4	3,423	112	3.3
Manville	7.8†	def	4.3	51.1	1.7	1.9	NM	P-D	2,150	-2	def
Ply Gem Industries	6.7	4.9	5.8	53.7	20.4	10.0	-14.2	500.0+	602	6	1.0
Carlisle Cos	6.4	12.5	11.3	25.5	2.1	1.2	NM	D-P	534	24	4.5
Noland	3.1	2.0	2.9	27.9	-1.6	4.4	NM	D-P	406	2	0.5
Hughes Supply	2.8	def	2.0	46.2	7.1	8.4	NM	D-D	518	-1	def
Morgan Products	def	def	1.5	42.9	NM	8.3	NM	D-D	387	-1	def
Nortek	def	def	def	57.4	-2.6	-12.0	NM	D-D	824	-31	def
Robertson-Ceco	def	def	def	114.6	5.7	-29.7	NM	D-D	479	-138	def
Owens-Corning	NE	NE	def	500.0+	-3.0	-1.2	NM	D-D	2,831	-469	def
Eljer Industries	NA	def	def	70.9	4.8	-3.6	NM	D-D	395	-29	def
Mueller Industries	NA	def	def	19.3	2.7	13.8	NA	NA	503	-32	def
Medians	3.1	def	2.0	51.1	2.7	1.9	NM	P-D	518	-2	def
Industry medians	6.4	2.4	3.7	39.8	3.8	3.4	NM	-6.8	602	4	0.5
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.



Robert L. Kamba, Vice President, MCI Network Management, takes a call at MCI's new facility in Morrisville, NC.

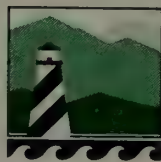
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Consumer durables

The world turned upside down:
GM imploded, Chrysler exploded
and Japan eroded.

By Jerry Flint

Nobody's breaking out the champagne yet, but the word "recovery" is finally being whispered around Detroit.

Slowly, the U.S. market for autos and light trucks is improving—from 12.3 million sales two years ago to 12.9 million in 1992, with 500,000 to 1 million more sales expected in 1993. The big three grabbed more than 72% of the market last year, a pickup of two percentage points from 1991. Better yet, that gain comes from trendy high-profit vehicles: Chrysler's Jeeps, Ford's Explorers, pickup trucks and minivans. At the low end, GM's Saturn outsells Toyota's Corolla and is closing in on Honda's Civic.

But the big trouble spot remains GM's North American operations. Frightened General Motors directors forced out top managers last fall, although losses in North America in 1992 narrowed to around \$4 billion, from \$7 billion in 1991. To blame are high costs, overcapacity and a poor product image, which means GM must lure customers with rebates. "In 1987 we spent \$1.8 billion on incentives. In 1992 we're spending \$9 billion. We're buying market share," concedes William Hoglund, GM executive vice president.

Without those incentives, GM won't have much in the

Consumer durables	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos	latest 12 mos	latest 12 mos
Company	%	%	%	%	%	%	%	%	\$mil	\$mil	%
Automobiles & trucks											
Paccar	12.4	5.8	5.9	30.9	4.8	8.2	NM	128.6	2,614	59	2.3
Volvo	9.6	3.4	2.5	16.0	NM	11.6	-9.7	D-P	15,204	167	1.1
Honda Motor	8.1	5.7	4.7	34.3	10.1	6.7	-5.6	-13.8	33,274	459	1.4
Ford Motor	7.4	0.2	4.2	66.1	5.3	6.9	NM	D-P	96,707	206	0.2
Nissan Motor	4.3	3.3	3.2	49.4	9.4	14.1	15.3	25.0	48,255	434	0.9
Chrysler	2.5	4.4	4.1	64.2	2.6	20.9	NM	D-P	34,880	246	0.7
General Motors	def	def	0.4	55.5	1.7	9.2	NM	D-D	130,271	-3,399	def
Navistar Intl	def	def	def	77.4	NM	-1.7	NM	D-D	3,553	-249	def
Medians	5.9	3.4	3.7	52.5	3.7	8.7	NM	76.8	34,077	187	0.8
Automotive parts											
Bandag	40.2	28.9	26.7	1.6	9.9	1.5	14.1	11.9	593	86	14.6
TBC	24.7	23.4	23.4	0.0	4.3	12.5	25.0	25.6	552	21	3.8
Genuine Parts	21.6	19.2	18.5	1.3	7.7	6.5	12.3	6.2	3,604	217	6.0
Cooper Tire & Rubber	20.9	23.6	19.9	8.7	11.4	18.2	28.2	41.2	1,135	104	9.2
Danaher	20.6	7.3	6.7	34.8	12.4	8.6	NM	76.6	912	24	2.6
Snap-on Tools	17.4	11.0	11.0	1.0	6.0	1.7	NM	-1.7	903	72	8.0
PPG Industries	15.9	9.8	7.6	19.1	4.2	1.3	NM	3.5	5,825	283	4.9
Modine Manufacturing	15.2	14.3	11.7	23.3	8.0	7.6	7.0	2.5	546	31	5.8
Eaton	13.7	10.7	8.3	31.2	NM	11.2	NM	76.2	3,771	137	3.6
Barnes Group	11.8	7.1	6.4	31.8	4.5	-1.1	NM	-32.8	532	11	2.1
Johnson Controls	9.4	10.0	8.5	17.9	14.2	13.1	NM	30.6	5,157	123	2.4
Dana	8.5	4.0	5.3	46.8	4.6	5.3	-24.2	150.0	4,943	41	0.8
Echlin	8.1	9.9	8.0	21.6	9.9	5.8	NM	53.3	1,783	64	3.6
TRW	7.9	def	def	34.0	5.7	6.0	NM	P-D	8,327	-81	def
Goodyear	7.8	14.4	9.1	33.1	3.8	6.4	NM	D-P	11,638	379	3.3
AlliedSignal	7.5	17.5	11.9	31.0	1.0	0.2	NM	D-P	11,994	527	4.4
SPX	6.5	7.8	6.5	35.9	NM	19.3	NM	D-P	797	18	2.3
Douglas & Lomason	6.4	16.0	11.4	24.4	7.9	4.7	NM	133.9	386	10	2.5
Standard Motor Prods	6.0	2.8	4.3	23.8	12.9	1.2	-18.0	-46.3	536	5	0.9
Standard Products	5.5	20.0	13.6	26.4	6.9	10.6	-9.2	D-P	669	27	4.1

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

Bob be nimble, Bob be quick

The old system just wasn't working. Designers designed, then threw it over the wall to engineers, who engineered, who then threw it to the manufacturing group. But cars took too long to develop—five to six years. Any executive with stars on his shoulder might interfere, and the quality suffered.

Then, in the late 1980s, Chrysler embraced a better idea: the "platform team." The aim was to create mini car companies: designers; engineers; manufacturing experts; finance, marketing and procurement people; suppliers—working together, creating one product themselves.

All Chrysler engineering is now divided into four platform teams: for large cars, for small cars, for minivans, and for trucks and Jeeps. Most of these people are now under one roof, in a new \$1 billion facility in Auburn Hills, Mich.

Focusing on just one vehicle at a time, team members now "stick their noses into each other's business" and get more of a feel of ownership,



The two Bobs: Chrysler Chairman Robert Eaton and President Robert Lutz

It takes a team to make it happen.

says Robert Lutz, Chrysler president, who led the drive for change.

An early success: A platform team of 840 people put the new Chrysler LH sedans into production in just 39 months.

Also helping: Lutz's new product theory that Chrysler cars don't have to appeal to everybody as long as a small group lusts for them. This opened the door to daring styling of the LH sedans by design chief Thomas Gale. Lee

Iacocca, the boss, might have been suspicious but backed his lieutenants, who made it happen.

Coming late in 1993 are two more platform team vehicles. One is a small car on which Chrysler will spend less than half what GM spent to develop its small Saturn. The other new entry is a full-size pickup truck with a big brawny look that makes it stand out from every other pickup on the road.

Chrysler's workers still

must build them right and the dealers must sell them right: In launching the LH line, Chrysler spent \$31 million on a dealer training program last year.

But ultimately it's going to be up to the two Bobs—Chrysler's new chairman, Robert Eaton, who came from General Motors (Europe), and Lutz—to make it all happen. Wall Street, which pushed Chrysler's stock from 10 to 30 last year, says it's in the bag. —J.F. ■

way of new cars to excite buyers this year. Even so, management believes a stronger market and more cost-cutting could help it cut its loss in North America to \$1 billion in 1993 from \$4 billion. To cut costs, GM is consolidating its auto platforms over the next few years and has pulled the plug on weak models like the Oldsmobile Toronado and Cadillac Allante. It is also closing assembly plants, and plans to exit 14%—\$3 billion worth—of its parts business because it can buy cheaper on the outside.

Unlike GM, Chrysler has new models that are exciting buyers and investors, and the stock tripled last year (*see box*). Over at Ford, the restyled Taurus and Sable posted a 23% increase in sales last year. Asian manufacturers? They

finally had to contend with slower times in their own home markets and tougher competition from Detroit and Europe. Honda cut U.S. production by 12%. Mazda canceled Amati, a luxury division. And Korea's Hyundai ran its Canadian assembly plant at only 15% of capacity.

One bright spot for European makers: BMW, which last year sold 25% more cars in the U.S. than it did in 1991. The German automaker also broke ground in South Carolina for a new assembly plant for a new sports car.

How about appliance sales? The market finally turned last year as unit sales rose 7%, to 46 million. For this industry to have another year like 1987—when it sold nearly 51 million refrigerators, washers, air conditioners and other big appliances—the housing sector must have a

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solid recovery.

Recreational vehicles? Motor homes, travel trailers and vans—made by companies like Winnebago, Fleetwood and Coachmen—also made a comeback. Industry ship-

ments last year ran 30% ahead of 1991. It might be the weak dollar encouraging vacations at home. Or, because a travel trailer is about as discretionary as you get, it may be a sign that some good times are returning.

Consumer durables	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company	%	%	%	%	%	%	%	%			
Allen Group	5.4	13.7	10.8	47.5	-6.3	-2.7	NM	D-P	264	20	7.6
Arvin Industries	4.7	7.5	6.8	43.5	10.1	11.3	-20.6	71.6	1,859	39	2.1
AO Smith	4.0	9.2	6.8	33.7	-0.9	13.6	-27.9	272.2	981	26	2.7
Federal-Mogul	3.8	0.1	3.2	31.1	2.5	4.5	NM	D-P	1,173	3	0.3
Masco Industries	2.3	8.6	6.5	72.6	11.5	11.9	NM	D-P	1,620	31	1.9
Varity	def	def	def	59.6	18.9	8.0	NM	D-D	3,459	-93	def
Cummins Engine	def	4.3	5.8	30.4	8.0	4.6	NM	D-P	3,599	38	1.1
Fruehauf Trailer	NA	def	def	69.5	-12.6	2.4	NA	D-D	523	-46	def
Medians	7.9	9.9	7.8	31.1	6.5	6.2	NM	62.5	1,154	31	2.6
Appliances											
Maytag	16.0	1.4	3.1	37.0	14.1	0.5	-14.7	-79.4	2,984	14	0.5
Whirlpool	10.1	12.0	8.5	48.4	13.3	7.3	-6.8	139.4	7,170	183	2.6
Pittway	8.0	12.6	10.8	10.8	10.2	6.5	-9.7	134.2	1,035	50	4.9
Black & Decker	7.0	5.2	5.7	60.6	25.1	2.4	NM	75.6	4,731	65	1.4
Sony	6.5	3.2	3.7	34.4	28.6	12.3	5.6	-48.0	29,385	384	1.3
Toro	3.9	def	def	53.4	4.7	-9.5	NM	P-D	632	-22	def
Harman International	3.7	4.2	5.6	62.0	11.5	3.8	-18.4	D-P	613	3	0.6
Philips Electronics	def	6.1	8.5	49.3	5.2	3.6	NM	D-P	33,778	381	1.1
Zenith Electronics	def	def	def	36.0	-10.5	-3.3	NM	D-D	1,258	-85	def
Emerson Radio	def	def	def	175.6	NM	4.4	NM	D-D	836	-30	def
Sunbeam/Oster	NA	14.2	14.2	26.7	NM	11.5	NA	NA	944	57	6.0
Medians	5.2	4.2	5.6	48.4	10.2	3.8	NM	13.8	1,258	50	1.1
Home furnishings											
Rubbermaid	22.1	18.2	17.3	2.1	15.6	8.6	16.3	2.6	1,781	161	9.1
Newell Co	21.1	19.7	15.9	18.8	20.2	24.1	29.1	8.6	1,340	139	10.4
Leggett & Platt	14.3	16.0	11.5	23.4	14.8	4.1	NM	132.3	1,130	57	5.0
Kimball International	14.0	12.0	11.2	0.9	4.3	18.4	3.1	23.4	650	37	5.7
La-Z-Boy Chair	12.6	9.4	8.4	18.1	8.0	4.4	NM	-11.8	640	23	3.6
Heilig-Meyers	12.2	11.9	9.3	42.1	13.8	23.6	10.9	23.5	580	32	5.5
Premark Intl	11.5	0.4	2.0	22.4	7.5	4.0	NM	-96.2	2,908	1	0.1
Oneida	11.3	8.9	6.6	35.9	10.8	9.2	-16.4*	43.7	470	10	2.2
Armstrong World Inds	11.2	def	def	18.0	3.9	3.1	-16.0	P-D	2,533	-48	def
Bassett Furniture Ind	6.2	9.9	9.7	0.0	-1.5	14.8	-9.9	63.4	454	25	5.6
Springs Industries	5.8	7.3	6.7	31.3	4.5	4.0	NM	59.9	1,945	42	2.2
LADD Furniture	5.0	def	def	32.9	8.9	6.8	NM	D-D	470	-7	def
Fieldcrest Cannon	def	5.9	7.4	54.5	NM	2.0	NM	D-P	1,231	15	1.2
Interco	NA	NA	NA	69.3	-14.8	6.4	NA	NA	1,510	NA	NA
Medians	11.5	9.4	8.4	22.9	7.7	6.6	-16.4	23.4	1,181	25	3.6
Recreation equipment											
Harley-Davidson	27.4	19.6	16.9	12.4	20.5	15.0	31.9	45.6	1,031	47	4.6
Huffy	16.2	12.9	10.4	37.7	17.7	6.2	27.1	-5.5	678	16	2.4
Fleetwood Enterprises	11.4	10.4	9.6	17.3	3.2	20.0	NM	40.8	1,743	49	2.8
Brunswick	4.5	3.2	3.3	16.6	NM	6.8	NM	D-P	2,242	29	1.3
Outboard Marine	def	0.4	1.7	27.5	-7.3	8.2	NM	D-P	1,065	2	0.2
Winnebago Industries	def	def	def	3.9	-10.3	32.5	NM	D-D	295	-3	def
Coachmen Industries	def	def	def	11.2	-8.8	21.1	NM	D-D	275	-2	def
Medians	4.5	3.2	3.3	16.6	-7.3	15.0	NM	40.8	1,031	16	1.3
Industry medians	7.8	7.3	6.7	31.3	5.5	6.7	NM	41.0	1,299	31	2.2
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

This announcement appears as a matter of record only.

THE MONEY STORE®

\$55,000,000
Senior Subordinated Notes due 1996

The undersigned structured the financing and arranged
the private placement of these securities.

Prudential Securities Incorporated

December 1989

**When you
do it right
the first
time,**

This announcement appears as a matter of record only.

THE MONEY STORE®

Pass-Through Certificates,
Residential Second Mortgage Loans,
Series 1991-2
Class A and Class R

\$94,305,001.86
8.625% Class A Certificates

The undersigned arranged the private placement
of these securities.

Prudential Securities Incorporated

June 27, 1991

New Issue

2,200,000 Shares

THE MONEY STORE®

Common Stock

Price \$16 Per Share

The undersigned acted as sole manager
of this public offering.

Prudential Securities Incorporated

September 23, 1991

This announcement appears as a matter of record only.

THE MONEY STORE®

Pass-Through Certificates,
Residential Second Mortgage Loans,
Series 1991-4
Class A and Class R

\$112,886,216.88
7.05% Class A Certificates

The undersigned arranged the private placement
of these securities.

Prudential Securities Incorporated

December 20, 1991

New Issue

\$109,857,772
(Approximate)

Class A Certificates

TMS Home Equity Loan Trust 1992-A

6.95% TMS Home Equity Loan
Asset Backed Certificates, Series 1992-A

THE MONEY STORE®
Representative and Servicer

The undersigned acted as lead manager
of this public offering.

Prudential Securities Incorporated

February 27, 1992

**you get to
do it right
again and
again.**

This announcement appears as a matter of record only.

THE MONEY STORE®

\$7,000,000
Senior Subordinated Notes due 1999

The undersigned arranged the private placement
of these securities.

Prudential Securities Incorporated

May 1992

New Issue

\$127,506,701
(Approximate)

Class A Certificates

TMS Home Equity Trust 1992-B

6.90% TMS Home Equity Loan
Asset Backed Certificates, Series 1992-B

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of this public offering.

Prudential Securities Incorporated

June 16, 1992

This announcement appears as a matter of record only.

THE MONEY STORE®

\$125,000,000
Senior Notes due 1996 and 1997

The undersigned arranged the private placement
of these securities.

Prudential Securities Incorporated

September 1992

New Issue

\$129,717,511

TMS Home Equity Trust 1992-C

\$89,571,106 6.20% Class A-1 Certificates
\$40,146,405 6.65% Class A-2 Certificates
TMS Home Equity Loan Asset Backed
Certificates, Series 1992-C

THE MONEY STORE®
Representative and Servicer

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of this public offering.

Prudential Securities Incorporated

September 22, 1992

Prudential Securities



ALL OF THESE SECURITIES HAVING BEEN SOLD, THIS ANNOUNCEMENT APPEARS AS A MATTER OF RECORD ONLY.



Consumer nondurables

U.S. sales of household products and personal care products remained stagnant, but overseas markets for these items continued to grow.

By Amy Feldman

Caution was the watchword last year as consumer spending on nondurable items rose only about 3.5%. "We're not expecting much change in 1993," says Kenneth Goldstein, an economist at the New York City-based Conference Board.

To drum up interest, makers of household and personal care products have been churning out all sorts of new variations—everything from superconcentrated laundry detergents to clear deodorants—at a rapid pace. But so far many of those have been met with a big yawn from consumers. Though revenues were up last year, U.S. unit sales were almost flat.

You have to go overseas to find real growth. Deodor-

ants, diapers and tampons are hot items in emerging markets like Argentina and India, where consumers have growing amounts of money to spend. A big winner has been Procter & Gamble, whose international sales have grown at an annual compound rate of 21% over the past five years, compared with 6% domestically. P&G has done especially well overseas with Pampers diapers and Pert shampoo. "The rest of the world is trading up," explains Merrill Lynch & Co. analyst Deepak Raj. Gillette's Sensor razor, for example—which has nearly 20% of the U.S. market—is becoming all the rage in Europe, as consumers there switch to Sensors.

How's apparel doing? The women's market has become

Consumer nondurables	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital	Debt/capital	Sales		Earnings per share		Sales	Net income	Profit margin
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos			
Company	%	%	%	%	%	%	%	%	\$mil	\$mil	%
Personal products											
Gillette	38.4	40.2	26.3	29.7	10.7	9.0	17.3	17.7	4,997	492	9.9
First Brands	31.0	17.2	11.1	49.8	3.3	-1.2	-11.5†	-3.0	996	43	4.3
Johnson & Johnson	29.0	28.7	23.8	17.8	12.0	10.8	29.2	15.7	13,398	1,627	12.1
Stanhome	26.1	19.7	19.9	0.4	14.1	5.5	14.4	3.4	745	48	6.5
Tambrands	25.9	43.6	40.1	0.8	6.0	8.6	5.6	5.8	693	95	13.7
Avon Products	23.4	68.1	33.6	37.3	5.4	4.9	NM	34.3	3,765	164	4.4
Kimberly-Clark	22.0	21.9	14.9	20.1	9.4	4.7	15.6	14.8	7,009	552	7.9
Procter & Gamble	20.2	17.5	13.5	21.2	11.6	8.9	34.4	1.0	30,036	1,767	5.9
Gibson Greetings	18.5	4.7	4.5	18.9	10.9	-10.2	14.3	-62.4	475	14	3.0
Colgate-Palmolive	17.7	17.2	16.4	13.7	3.1	14.2	NM	317.5	6,812	454	6.7
Church & Dwight	17.6	20.0	17.3	4.3	11.6	9.1	15.8	9.6	512	28	5.4
Alberto-Culver	17.2	15.4	11.8	16.9	15.2	24.9	12.4	28.3	1,091	39	3.5
Block Drug	15.0	13.5	13.0	4.0	12.6	9.6	12.1	7.7	596	60	10.1
Carter-Wallace	14.7	11.8	11.6	3.5	8.7	-1.3	8.0	7.1	660	48	7.3
Clorox	14.4	15.0	11.0	21.6	9.0	4.8	NM	111.5	1,740	119	6.9
Helene Curtis Inds	10.4	12.8	8.5	45.2	20.6	14.6	NM	91.2	1,090	21	1.9
Duracell Intl	10.1*	18.3	12.7	38.5	10.7	5.7	NM	87.0	1,649	169	10.2
Scott Paper	9.0	def	2.3	46.7	8.0	-2.2	NM	P-D	4,984	-35	def
Service Corp Intl	8.6	13.3	7.4	54.1	3.8	24.1	7.1	9.9	753	82	10.9
James River Corp Va	5.5	def	2.2	34.8	NM	-0.2	-24.0	P-D	4,691	20	0.4
Dial	NA	1.0	4.3	49.7	10.8	0.5	NM	-91.9	3,333	10	0.3
Medians	17.6	17.2	12.7	21.2	10.7	5.7	7.1	9.6	1,649	60	6.5
Apparel & shoes											
NIKE	36.0	28.1	27.3	1.4	32.3	14.1	51.6	11.1	3,558	337	9.5
Liz Claiborne	33.8	24.7	24.2	0.2	19.3	12.0	22.0	1.5	2,179	223	10.3
Stride Rite	32.4	29.6	28.2	1.4	15.4	5.8	36.6	11.7	593	71	12.1
Phillips-Van Heusen	29.4	19.5	14.9	51.0	13.4	14.3	9.2	43.8	966	32	3.4
LA Gear	28.0	def	def	0.0	77.4	-29.8	NM	D-D	478	-80	def

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

"It's not rocket science"

Twenty-five years ago Church & Dwight Co. had sales of \$16 million, based on a healthy little niche: selling Arm & Hammer baking soda as a baking ingredient and as a powder for cleaning teeth.

That was it. Clean and simple. But the firm stumbled in the mid-1980s, after it tried to diversify into everything from aerosol deodorant to cashew butter. In 1985 Church & Dwight's net income dropped to \$5 million, from \$11 million the previous year, on sales of \$180 million.

Chairman and Chief Executive Dwight Church Minton realized that, like many old family-held firms, Church & Dwight had outgrown its entrepreneurial management style. "I figured I needed help," says Minton, a 58-year-old Stanford M.B.A. Putting aside ego in favor of safeguarding the family's 43% stake (worth \$275 million), Minton brought in a slew of top managers from Procter & Gamble, Johnson & Johnson and Chesebrough-Pond's to do everything from finance to marketing to research and development.

It didn't take long for the new team to get things in order. Off-focus products like Scrunge scrubber sponges and animal feeds were dropped. And an old idea that was tested and discarded in the 1970s—a baking soda toothpaste—was revived with a new formula and extensive test



Church & Dwight Chief Executive Dwight Minton

Out with cashew butter, in with tartar-control toothpaste.

marketing. The result: Since its national rollout in 1988, Arm & Hammer Dental Care now trails only Crest and Colgate and has more than 10% of the high-margin \$1-billion-plus toothpaste market.

Another success: Arm & Hammer Laundry Detergent has become the firm's biggest seller, with close to \$200 million in sales in 1992. This quality product is sold without advertising, relying solely on the Arm & Hammer brand name and trademark

yellow packaging. The savings are passed on to consumers with prices that are 20% to 25% below Tide and other name brands.

New products? Simple line extensions. Last year Church introduced a baking-soda-based cat litter deodorizer. Smith Barney analyst Joseph Kozloff believes that a deodorant will hit the shelves this year that could gain sales of \$50 million or more. That might be followed by a bar soap or auto-

matic-dishwasher liquid. Last year Church spent 3.5% of sales, or \$18 million, on research and development, much of which is subcontracted—as is some of Church's manufacturing. That gives Church a return on capital of 17%, compared with the industry median of 13%.

Keeping focused and not committing lots of capital to bricks and mortar certainly make sense. "It's not rocket science," says Minton, "but it works for us."

—A.F. ■

increasingly divided between the discounters and the high-fashion apparel makers (FORBES, Dec. 7, 1992). That split has put the squeeze on companies that straddle the middle market—from moneylosing Crystal Brands, Inc. to kids' clothesmaker Oshkosh B'Gosh. Liz Claiborne, Inc., highly successful in department stores with its name-sake brand, is moving into the mass market. In May it acquired the lower-priced Russ, Villager, Crazy Horse and Red Horse labels from bankrupt Russ Togs.

Textile makers finally found something to be happy about. After almost two years of tough times, the market

turned in the first half of 1992. By year-end, sales were expected to reach some \$6.7 billion, an increase of 21% over last year's low, with margins returning to their 1989 levels. Apart from the economy's coming out of the recession, this upturn is caused by an increase in consumer demand for home furnishings.

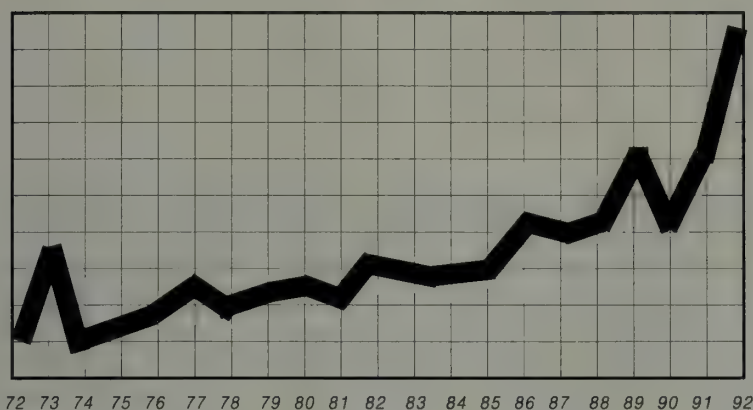
Among the best performers have been those companies in specific niches. These include Guilford Mills, Inc., a \$623 million (sales) leading producer of basic warp knit fabrics and microfibers, and Unifi Inc., a \$1.1 billion maker of texturized yarn.

Consumer nondurables	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share				
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company											
Reebok International	26.2	27.7	24.1	11.3	21.4	11.9	10.3	16.2	2,949	232	7.9
Fruit of the Loom	24.8	24.5	13.5	41.4	18.8	20.7	21.9*	82.3	1,827	171	9.4
Leslie Fay Cos	18.0	11.2	10.3	26.9	9.6	-10.2	9.1	-24.4	777	24	3.1
Russell	15.9	15.3	12.0	22.9	13.7	21.1	7.1	54.9	899	78	8.7
VF	15.8	21.4	15.3	32.5	9.9	30.7	NM	109.2	3,646	215	5.9
Kellwood	10.8	10.7	8.9	27.4	8.4	14.1	-11.7	53.2	946	25	2.6
Oxford Industries	7.9	12.5	10.7	17.1	-2.1	8.1	NM	89.7	539	13	2.4
Gitano Group	7.7	def	def	72.6	23.2	15.1	NM	D-D	868	-165	def
Instrument Systems	7.2	22.6	12.5	15.6	13.7	9.0	NM	56.1	521	22	4.2
Crystal Brands	2.3	def	def	70.8	23.5	-22.7	NM	D-D	653	-71	def
Hartmarx	def	def	def	51.2	3.8	-5.8	NM	D-D	1,161	-241	def
Salant	def	NE	def	129.4	29.7	10.0	NM	D-D	422	-5	def
Warnaco Group	NE	NE	11.1	71.3	5.6	6.9	NM	D-P	598	23	3.9
Medians	15.9	13.9	11.5	27.1	14.6	10.9	NM	14.0	884	25	3.6
Textiles											
Shaw Industries	24.5	18.9	11.9	39.6	20.1	14.6	13.5	73.5	1,861	67	3.6
Unifi	24.2	25.0	17.6	37.3	15.8	11.3	23.4	79.4	1,104	85	7.7
Delta Woodside Inds	20.1	13.9	12.1	24.9	9.1	8.8	NM	-13.0	688	37	5.4
Guilford Mills	8.7	14.0	10.5	25.5	NM	12.7	NM	71.0	623	27	4.3
Dixie Yarns	0.0	def	def	51.8	6.7	-6.8	NM	D-D	470	-19	def
DWG	def	def	6.9	65.9	2.5	5.6	NM	D-D	1,290	-6	def
Burlington Industries	NE	NE	1.7	66.4	-6.3	7.3	NM	D-D	2,066	-89	def
Medians	8.7	13.9	10.5	39.6	6.7	8.8	NM	-13.0	1,104	27	3.6
Photography & toys											
Polaroid	37.1	14.0	11.1	32.7	4.5	5.1	NM	-76.8	2,137	128	6.0
Mattel	33.2	29.9	24.1	28.1	10.4	20.4	41.8†	28.1	1,850	138	7.4
Tyco Toys	18.3	14.3	13.5	4.9	43.6	45.4	NM	500.0+	703	34	4.8
Hasbro	10.5	16.1	12.7	27.7	8.1	31.9	NM	139.7	2,471	158	6.4
Eastman Kodak	8.8	4.8	4.5	49.6	11.2	1.9	NM	-60.3	19,861	295	1.5
Fuqua Industries	def	def	0.0	46.7	6.1	21.3	NM	D-D	1,114	-21	def
Fisher-Price	NA	NA	12.0	27.8	-6.0*	5.0	NA	NA	671	33	4.9
Medians	14.4	14.1	12.0	28.1	8.1	20.4	NM	-16.1	1,850	128	4.9
Industry medians	17.2	14.6	11.9	27.8	10.7	8.9	NM	10.5	1,091	43	4.8
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

Hindsight.



If you had invested \$10,000 in Louisiana-Pacific stock when the company was formed in 1973, your investment would be worth \$113,000 today (based on stock price as of 12/1/92). Two stock splits and 12 stock dividends would have increased your number of shares from 400 to 1,661. You'd also have cash dividends of \$13,987.

Many Happy Returns as Louisiana-Pacific Celebrates Its 20th Anniversary

Truthfully it's probably one of the last places you'd expect a 40 percent annual return over 20 years. Louisiana-Pacific is not a high flying, high-tech company (although it uses technology to produce better products). It's a building products company with a difference. Formed just 20 years ago, Louisiana-Pacific set its sights on producing innovative, affordable, environmentally sound construction materials that don't need the big, controversial trees that are increasingly off limits.

The result has been outstanding performance in so-so markets and turbo-charged performance when markets are hot.

Changing the building industry

Louisiana-Pacific is the company that changed the face of the building industry with its pioneering of a plywood substitute called *oriented strand board*. It's the company that developed building materials and insulation made from recycled newspaper — "the world's largest remaining untapped forest." It's the company that produced

a line of engineered lumber and wood I-joists that are stronger, stiffer and straighter than 2x10 or 2x12 lumber, yet use half the wood and weigh about 45 percent less. It's the company that realized that energy efficient windows and doors can be both attractive and affordable.

Doing something about it

What sets Louisiana-Pacific apart from others in the industry is that it looks at every challenge as an opportunity. From top on down L-P is operationally oriented for quick decisions on the local level. It's not inclined to send a proposal to committee for review of the situation next year. It is poised to spot an opening and move now with an innovative response.

For example, by the 1970s, Louisiana-Pacific had already recognized what would only become widely known a decade later: our nation's dependence on old growth forests would come to an end. In response the company pioneered a non-veneer waferboard sheathing as a substitute for plywood. That product was a precursor to

today's oriented strand board.

And what began as one product manufactured in one plant in 1979 has become an entire line of Louisiana-Pacific *Inner-Seal®* products manufactured in 18 plants. In the U.S. alone, the market now exceeds 10.6 billion square feet a year. And guess who has the lion's share? The market will continue to grow as production of plywood and other traditional products declines due to environmental pressures.

Looking ahead

When a company produces products that work better, are more environmentally sound and cost less, it's going to attract customers. Louisiana-Pacific has shown that to be true. That's why L-P has been setting records during markets that can best be described as restrained. And it's why Louisiana-Pacific's prospects are so exciting as we anticipate a stronger economy.

Foresight.

Fill out the coupon today and we'll send you more information on Louisiana-Pacific's innovative products and put you on the list to receive our 1992 annual report when it's available in March.

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Electric utilities

At last the utility business is becoming competitive—thanks to the unregulated independent producers and weak demand growth.

By Manjeet Kripalani

Federal deregulation of the big integrated utilities plus aggressive moves by independent power producers is finally making this business more competitive.

In 1992 Congress passed legislation that will allow the independents to use the transmission lines of the big utilities to move their power—important access the big operators sometimes previously denied. Moreover, holding companies that want to operate power plants in more than one state can now do so with less bureaucratic hassle.

A rebel utility

"I don't care for the status quo," says San Diego Gas & Electric Chief Executive Thomas Page. Good thing, too. Once California's highest-cost producer of energy, the utility is now the state's most efficient provider. Its Standard & Poor's rating has moved to A+ from a BBB+ rating. Heavily dependent on oil in the 1980s, the utility has reduced oil usage to just 0.7%.

Credit Page, 59, for the comeback. An engineer and an accountant, Page watched the telephones and gas pipelines deregulate. He became convinced that the old utility model—forecast, build, operate and hope to recover profits—was myopic.

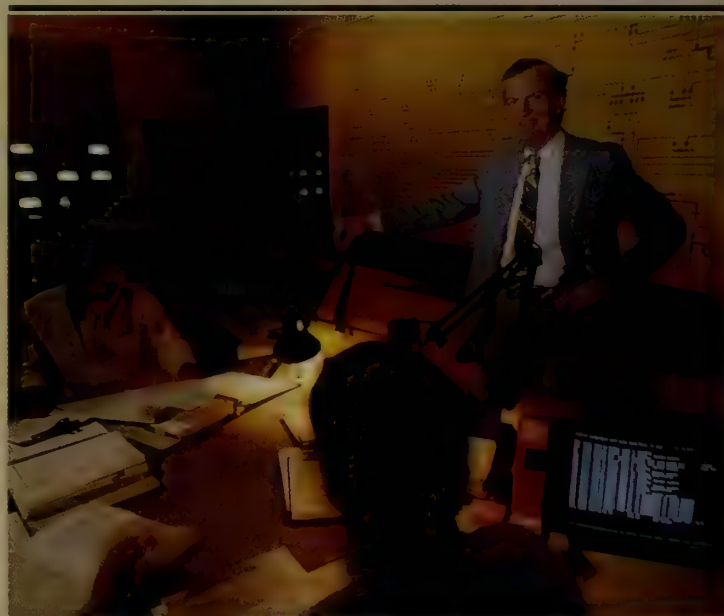
After ordering an in-depth analysis of the power market in 1983, Page determined there would be a bigger—and longer-lasting—power surplus than prevailing wisdom held at the time. So, while other utilities were building, SDG&E halted plans for any new plants.

It turned out to be a smart move. With an abundance of cheap power available on the market, Page has avoided spending lots of money on new capacity by simply buying whatever he needed to meet demand. Purchased power, in fact, now accounts for 56% of the utility's output.

There has been one big disappointment. Page had a chance to merge with giant SCEcorp almost two years ago, a move that would have provided the utility with enough power to last well into the next century. SDG&E will have to add 1,600 megawatts of new power capacity by the year 2000 to its current capacity of 2,460 megawatts. But regulators nixed the deal, saying it would create too great a monopoly. Undeterred, Page simply went back out shopping for cheap power. Likely sources? The Southwest, which has a natural gas surplus, and Mexico. And the company is retrofitting a 500-megawatt oil and gas plant with high-efficiency gas turbines.

Before, they had to submit to a tedious—and uncertain—process with the Securities & Exchange Commission.

The independents, which currently provide 6% of the country's total generating requirements, are helping to break the monopoly once enjoyed by integrated utilities. Unregulated, these new operators—like Destec Energy and AES Corp.—can construct and operate plants more quickly and cheaply than the integrated utilities. In fact, independents are responsible for half of the new capacity



Chief Executive Thomas Page at SDG&E's trading desk
With cheap power plentiful, the utility has avoided adding new capacity by buying whatever it needs.

Page's no-build strategy ties right into his rate-making ideas, too. Under a plan now before the California Public Utilities Commission, rates would be based on SDG&E's ability to keep its prices competitive rather than on the amount of capital invested. If the company keeps its prices below a set benchmark, stockholders and customers share the profits. If prices are above

the benchmark, everyone shares the costs.

Is Page prepared to put his shareholders at risk? "I want to set the agenda, rather than just react to someone else's [the regulators'] agenda," says Page. "There should be a reward for being smart, rather than for just investing money. Anybody can invest a lot of money and then try to recover it."

—M.K.

that came on line during the 1980s. Independents also have lower overhead because they don't have to maintain transmission lines or provide customer service to retail users. Local utilities find it cheaper to buy power from the independents than to build new plants. By the end of the decade, the Edison Electric Institute estimates, the independents will provide as much as 15% of the country's generating needs.

Last year all utilities benefited from reduced construction requirements and the cheaper cost of money. Many companies took advantage of the drop in interest rates and redeemed high-cost debt. But public service commissions

have been taking a harder look at allowed returns: The average allowed return on equity has been cut to 11.5% from 13% only two years ago.

How about nuclear energy? The prospects for new atomic facilities are dim at best. Other sources of cheap power are abundant, and utilities see little need to suffer the costs or the public relations pressure involved in building nuclear plants. In fact, a number of nuclear facilities—especially older units—are being phased out. Much of the new generating capacity coming on line burns natural gas or low-sulfur coal.

Did someone say environment? The 1995 compliance

Electric utilities	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/capital %	Sales		Earnings per share				
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company											
Northeast											
Potomac Electric	14.1	10.4	5.4	39.1	2.4	5.2	-3.6	-13.0	1,599	191	12.0
Pennsylvania P&L	14.0	13.0	7.1	39.7	3.6	1.8	5.6	-2.5	2,751	340	12.4
New England Electric	13.0	12.9	7.2	39.5	8.1	7.4	NM	8.4	2,139	185	8.7
Orange & Rockland	12.9	11.7	7.4	42.5	10.1	17.6	1.1	-16.8	814	45	5.5
General Public Utils	12.8	8.5	5.9	35.7	3.8	2.9	4.1	-27.3	3,412	195	5.7
Consolidated Edison	12.6	12.1	8.0	34.6	3.0	-1.7	1.8	-0.8	5,797	596	10.3
Atlantic Energy	12.6	11.9	7.3	33.5	5.2	6.6	NM	8.6	813	90	11.1
Allegheny Power	12.6	11.7	7.3	41.6	5.7	1.3	-2.7	-0.5	2,303	200	8.7
Northeast Utilities	12.2	11.9	7.3	53.1	7.2	14.3	2.3	0.0	3,072	251	8.2
Pub Svc Enterprise	12.2	10.8	6.7	41.7	3.2	3.7	NM	8.0	5,222	501	9.6
Central Maine Power	11.5	12.1	7.7	41.2	10.4	6.4	2.0	7.1	889	66	7.4
NY State E&G	11.2	10.3	6.0	38.3	4.4	7.9	NM	-5.0	1,649	173	10.5
Baltimore G&E	10.6	8.8	5.9	35.6	6.1	4.2	-10.8	8.0	2,489	239	9.6
Delmarva Power & Lt	10.2	11.8	6.6	38.1	3.6	0.9	-11.8	174.1	839	92	11.0
Central Hudson G&E	10.2	10.7	6.8	43.7	3.3	1.4	-2.3†	3.4	510	44	8.7
American Water Works	10.1	9.1	6.6	49.8	6.0	5.1	2.9	-14.8	654	68	10.4
Philadelphia Elec	9.8	9.1	6.6	47.3	5.2	0.6	11.6	-15.7	3,948	418	10.6
Rochester G&E	9.7	7.9	6.1	42.6	3.3	4.3	NM	-16.7	881	56	6.4
Commonwealth Energy	8.8	7.4	5.2	41.5	7.1	2.7	-13.6	-18.1	874	24	2.7
Boston Edison	7.5	11.8	6.6	41.2	3.3	5.8	-7.3	11.1	1,392	105	7.6
Long Island Lighting	7.2	10.7	6.9	55.4	5.5	4.7	2.5	-8.9	2,628	292	11.1
Niagara Mohawk Power	6.1	10.0	6.6	50.0	5.3	8.2	-21.4	237.0	3,586	250	7.0
United Illuminating	6.0	12.9	5.5	47.4	5.3	4.5	NM	1.9	670	56	8.4
Medians	11.2	10.8	6.6	41.5	5.2	4.5	-3.6	-0.5	1,649	185	8.7
North central											
PSI Resources	22.4	def	2.7	42.9	1.5	-5.2	-19.9	P-D	1,070	-1	def
Cincinnati G&E	15.8	10.3	7.0	42.8	1.7	1.6	5.9	-27.0	1,528	192	12.6
Detroit Edison	15.7	19.1	9.4	45.3	5.0	-0.6	NM	6.3	3,542	573	16.2
Union Electric	14.7	12.7	7.6	38.2	2.5	-4.6	NM	-13.9	2,005	280	14.0
Wisconsin Energy	14.4	11.7	7.1	33.3	1.6	2.0	3.3	-9.4	1,540	170	11.1
Ipalco Enterprises	14.1	11.6	7.1	31.8	4.2	-1.2	-2.0	-10.6	631	89	14.1
WPL Holdings	14.0	12.1	7.1	35.6	2.9	0.9	2.1	-8.0	646	56	8.6
DPL	13.8	12.0	8.9	44.4	0.5	0.5	NM	-3.8	1,009	130	12.8
IES Industries	13.5	9.6	6.1	41.6	2.2	3.2	6.1	11.5	666	46	6.9
No States Power	13.3	9.5	5.8	30.1	4.4	-2.1	NM	-25.2	2,121	168	7.9
Minnesota Power & Lt	13.1	10.2	6.3	34.9	4.0	0.9	NM	3.7	487	67	13.7
Wisconsin Public Svc	13.0	12.6	7.2	30.8	0.8	1.6	NM	0.9	627	54	8.6
American Electric	13.0	10.1	6.6	42.1	1.4	-0.9	NM	-13.1	5,015	427	8.5
Iowa-Illinois G&E	12.5	8.8	4.6	41.3	NM	-5.5	NM	-28.9	487	45	9.2
CILcorp	12.3	9.8	5.2	29.7	4.8	-2.2	NM	-13.2	572	33	5.8
Kansas City P&L	11.9	8.3	4.7	33.1	4.4	-6.0	NM	-31.2	786	75	9.6

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

deadline for the Clean Air Act Amendments of 1990 is looming. Again, the independents are more flexible and generally more willing than the big utilities to experiment with alternative power sources like solar, geothermal and wind. But the whole industry is accelerating conservation.

Things under the Clinton Administration may not be

much different. Barry Abramson, an analyst at Prudential Securities, thinks there will possibly be greater emphasis on conservation. But he doesn't anticipate big policy changes on other issues. "Much of the important legislation has already been passed," he says. "Congress is tired of having to haggle over new utility bills."

Electric utilities	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital	Debt/capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos	latest 12 mos	latest 12 mos
Company	%	%	%	%	%	%	%	%	\$mil	\$mil	%
CipSCO	11.7	11.1	6.0	31.2	1.8*	-0.9	NM	-7.4	714	68	9.5
Midwest Resources	11.6	6.4	4.6	41.7	1.8	4.6	-2.5	-36.9	1,004	44	4.4
DQE	11.6	12.5	6.8	42.2	6.6	0.8	7.1	5.2	1,192	139	11.6
NipSCO Industries	11.0	12.4	6.7	33.7	NM	1.2	32.9*	-1.6	1,549	129	8.4
Ohio Edison	10.3	9.7	6.5	45.8	6.5	-0.4	-7.4	15.5	2,333	269	11.5
Centerior Energy	7.7	7.7	5.4	38.7	6.4	-4.6	NM	-10.3	2,428	220	9.1
Commonwealth Ed	4.2	def	2.8	52.1	1.4	-1.3	NM	P-D	6,044	-21	def
Illinois Power	def	6.0	4.7	40.5	4.2	0.3	NM	D-P	1,480	118	8.0
CMS Energy	def	def	2.5	50.7	NM	-3.8	NM	D-D	2,957	-54	def
Medians	13.0	10.1	6.3	40.5	2.2	-0.6	NM	-10.3	1,192	89	9.1
Southeast											
TECO Energy	15.7	14.8	7.9	35.7	4.8	2.9	8.1	2.8	1,174	146	12.5
Scana	15.4	11.0	6.1	36.2	0.8	-0.1	4.5	-15.0	1,142	114	10.0
KU Energy	15.3	13.3	7.7	32.0	0.8	-1.3	7.5	-7.4	578	76	13.1
Duke Power	13.8	10.5	6.9	34.4	1.6	5.8	5.3	-17.1	3,943	484	12.3
Dominion Resources	13.1	10.0	6.8	42.7	4.1	2.9	NM	-15.3	3,813	390	10.2
Florida Progress	12.9	10.2	5.8	34.1	1.9	2.3	-3.2	-14.7	2,102	164	7.8
LG&E Energy	12.4	10.3	6.0	36.8	2.1	8.6	2.3	-15.8	775	70	9.0
Carolina Power & Lt	12.2	13.6	7.8	35.5	6.3	1.3	NM	9.5	2,729	368	13.5
Southern Co	11.5	14.4	9.2	45.3	3.6	0.5	NM	31.3	8,083	1,009	12.5
FPL Group	4.6	10.9	6.6	39.1	5.0	-5.9	-12.3	54.2	5,013	408	8.1
Medians	13.0	11.0	6.8	35.9	2.9	1.8	-0.5	-11.1	2,416	266	11.3
South central											
Southwestern Pub Svc	15.9	14.2	8.5	33.3	-1.3	3.4	1.8	-11.0	749	103	13.8
Oklahoma G&E	15.1	10.9	6.4	36.6	4.1	-1.0	4.7	-29.1	1,296	101	7.8
Central & So West	13.3	12.6	7.0	32.2	3.6	9.7	NM	-1.0	3,220	380	11.8
Houston Industries	11.0	8.8	5.9	44.6	4.7	4.7	-4.9	-22.5	4,560	326	7.2
Entergy	7.0	11.8	7.5	43.3	3.6	-0.5	5.9	15.4	4,034	493	12.2
Texas Utilities	6.7	9.7	6.7	44.2	4.2	-0.1	NM	D-P	4,883	618	12.7
Gulf States Utils	0.1	4.5	5.1	44.2	3.7	2.0	NM	100.0	1,751	141	8.1
El Paso Electric	def	NE	def	99.5	3.9	19.0	NM	D-D	521	-252	def
Medians	9.0	10.3	6.5	43.7	3.8	2.7	NM	-6.0	2,486	234	9.9
Western											
San Diego G&E	14.9	13.8	8.6	39.2	NM	5.7	1.9	-6.2	1,878	198	10.6
PacifiCorp	14.7	2.5	3.9	46.6	5.1	0.6	6.4	-80.9	3,991	123	3.1
Public Service Colo	14.5	14.4	8.5	40.9	1.6	4.1	3.2	22.7	1,830	163	8.9
SCEcorp	14.2	12.3	7.9	41.8	7.8	7.4	1.1	-10.2	7,916	702	8.9
Puget Sound P&L	13.2	12.0	8.1	47.9	6.9	2.7	3.2	-12.1	995	125	12.6
Montana Power	10.7	11.1	7.8	32.2	7.8	5.3	9.1	-7.3	970	101	10.4
Pacific G&E	10.0	14.6	8.7	41.9	6.1	8.1	NM	24.5	10,373	1,212	11.7
Hawaiian Electric	9.7	1.0	2.5	35.5	15.0	-1.7	NM	-84.7	1,079	7	0.6
Portland General	3.0	1.4	3.2	39.4	3.4	0.1	NM	-51.1	881	9	1.0
Public Service NM	0.3	3.3	3.7	45.7	5.1	-1.5	NM	181.0	848	32	3.8
Pinnacle West	def	def	1.2	53.4	NM	4.9	NM	P-D	1,592	-152	def
Tucson Electric	def	NE	3.7	108.0	2.2	12.9	NM	D-D	623	-9	def
Medians	10.4	7.2	5.8	41.8	5.1	4.5	NM	-11.1	1,336	112	6.3
Industry medians	12.2	10.7	6.6	41.2	3.9	1.7	-11.3	-7.7	1,545	130	9.0
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95. Sources: Forbes; Value Line Data Base Service via Lotus One Source.

From here on in, every luxury sedan in the world will have to rejustify its price.

The BMW 525i: \$35,600. The Mercedes 300E: \$42,950. The Lexus LS400: \$44,300.†

That's what people believe they have to pay for a high-quality, high-performance luxury sedan. But the time has now come to take a long, hard look at the relationship between a car's price and its value. The reason? The Chrysler Concorde. It's a new luxury sedan with



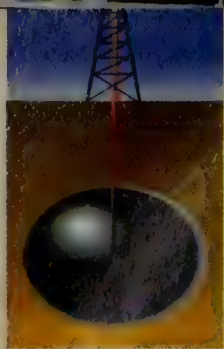
more horsepower than a BMW 525i. And thanks to a revolutionary new automotive architecture called "cab forward," it has more interior room than any Acura, Infiniti or Lexus. Its list of standard features reads like a wish list (including dual air bags). And when



it comes to performance, *Motor Trend* calls it "a ball to drive." The bottom line? The Chrysler Concorde, fully equipped, costs just \$23,432.* Why should driving a high-quality, beautifully performing automobile be a luxury reserved for the privileged few, when it can be offered to the privileged many? For information, call 1-800-4A-CHRYSLER.

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Energy

The slump that began a decade ago didn't turn in 1992, and the new year brings only a few hints of promise.

By Toni Mack

All but a handful of energy outfits will be happy to forget 1992. Oil prices went nowhere. Natural gas prices took a crazy roller-coaster ride. Refined product margins shriveled as worldwide recession sapped demand.

The outlook isn't much better for this year. The Organization of Petroleum Exporting Countries' biggest producers are racing to add capacity, while new gushers

spout in spots like Colombia and Papua New Guinea. The price of the U.S. benchmark crude is likely to continue muddling along around \$21. But keep an eye on Russia and Iraq. A collapse in Russia's exports, about 2 million barrels a day, will boost prices. The return of Iraqi exports would depress them.

One of the industry's few bright spots should be U.S.

Energy Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
International oils											
Exxon	14.9	12.7	8.4	13.5	8.9	-3.1	NM	-24.4	103,384	4,560	4.4
Texaco	13.8	10.2	7.7	29.1	3.8	-9.8	-9.6†	-25.5	36,669	1,038	2.8
Amoco	12.1	2.7	2.8	23.5	8.1	-8.1	9.6	-75.6	25,193	375	1.5
Mobil	11.4	6.4	5.6	16.7	4.4	-3.5	NM	-45.8	56,464	1,195	2.1
Chevron	9.2	6.9	5.6	18.0	10.1	-6.8	NM	-41.8	37,139	1,071	2.9
British Petroleum	NA	4.2	NA	36.7	7.1	-1.2	NA	-75.6	60,782	NA	NA
Medians	12.1	6.7	5.6	20.7	7.6	-5.1	NM	-43.8	46,802	1,071	2.8
Other energy											
Holly Corp	50.6	8.5	6.6	67.0	11.4	3.6	-41.1	-76.8	506	3	0.6
Union Texas Petrol	47.0	11.4	7.0	1.1	-3.6	-50.6	NM	-69.2	626	120	19.3
Tosco	36.2	16.4	13.5	43.9	21.0	-4.3	36.4*	72.8	2,039	81	4.0
Mapco	25.9	24.8	11.4	42.8	13.3	-6.2	23.8	0.7	2,640	120	4.5
Atlantic Richfield	21.8	15.9	9.3	37.2	2.7	-3.8	NM	9.7	17,323	1,089	6.3
Broken Hill	21.2	15.5	NA	37.9	13.4	-6.2	13.5	-20.7	11,063	NA	NA
Diamond Shamrock	14.7	5.4	4.8	44.8	11.3	-7.1	32.2*	-49.2	2,573	28	1.1
Phillips Petroleum	14.1	def	1.1	45.3	6.1	-12.2	NM	P-D	12,051	-62	def
El du Pont de Nemours	13.1	6.9	5.4	26.1	7.8	-4.4	NM	-45.7	37,928	1,157	3.1
Amerada Hess	11.8	def	0.6	39.6	11.1	-17.9	NM	P-D	5,823	-62	def
Valero Energy	11.6	13.2	8.4	30.1	NM	-2.2	81.4*	-10.2	1,126	98	8.7
Witco	10.8	11.4	9.7	19.6	3.9	0.6	NM	14.4	1,663	75	4.5
Fina	9.7	3.1	3.2	41.6	12.8	-8.6	-17.4*	-9.9	3,355	35	1.1
Unocal	8.9	2.8	3.9	55.4	6.2	-12.0	NM	-46.3	9,198	77	0.8
Kerr-McGee	8.3	6.1	5.4	29.1	7.5	-3.7	6.9*	-14.2	3,389	99	2.9
Ashland Oil	7.0	def	0.2	54.5	6.0	3.3	NM	P-D	9,552	-68	def
Crown Central Pet	6.5	def	def	14.8	14.4	-11.0	NM	P-D	1,733	-18	def
Oryx Energy	6.0†	def	2.6	48.3	8.7	-24.5	NM	P-D	1,319	-11	def
USX-Marathon	5.4	0.5	2.8	41.8	10.4	-16.3	NM	-95.8	11,453	49	0.4
Louisiana Land	5.4	def	def	40.8	NM	-5.5	NM	P-D	776	-7	def
Murphy Oil	4.7	7.7	6.6	2.2	6.0	-15.8	NM	D-P	1,572	87	5.6
Quaker State	4.0	3.5	3.8	19.5	-1.3	-0.7	5.6†	-34.4	824	11	1.3
Howell	def	def	def	40.6	38.1	-16.3	NM	P-D	447	-9	def
Westmoreland Coal	def	def	def	21.7	-1.7	-2.1	NM	D-D	551	-12	def
Sun Co	def	def	def	24.3	4.0	-18.1	NM	D-D	9,238	-370	def
Occidental Petroleum	def	3.1	5.8	54.5	NM	-32.1	8.5	D-P	9,207	136	1.5
Pennzoil	def	1.0	3.5	52.6	9.0	-13.8	NM	-87.3	2,242	12	0.6
Tesoro Petroleum	def	def	def	36.4	-4.1	-12.3	NM	D-D	951	-20	def

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. P-Z: Profit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95. Sources: Forbes; Value Line Data Base Service via Lotus One Source.

Leading on the technology curve

What kind of company returns 21% on equity while its industry ekes out only a 1% return and customers cut spending by 10%? Only a company its customers can't do without. Like Schlumberger Ltd.

Credit its chairman, Euan Baird. In 1986 Schlumberger's board chose this Scottish geophysicist—the first non-Frenchman to run the French-bred oil service outfit—to steer it through the oil bust.

Baird succeeded because he understands his customers. Oil prices are low and stagnant. So oil-field service firms must have ever more efficient products and services to help oilmen find and develop reserves. "This, in turn, requires increased investment in new technology," says Baird.

Since 1987 he has boosted Schlumberger's oilfield research spending by 37%; the company typically spends as much as the combined total of its competitors. "In the last five years, almost all the truly new products have



Erich Hartmann/Allegum

Euan Baird,
Schlumberger
chairman and
chief executive

**Premium prices
for premium
products.**

come out of or grown greatly under Schlumberger," says PaineWebber analyst James Carroll.

Take Schlumberger's EB-Clean technology. Back in 1949 Halliburton pioneered the basic method of pumping sand under pressure into a well bore so that the sand fractures the surrounding rock and props open the cracks; then hydrocarbons flow out more easily. Schlumberger's 1990 EB-Clean innovation is an additive that swells once it's in the cracks and enlarges them, then drains away so even more oil or gas flows.

EB-Clean has been so successful that Halliburton, once a top innovator in the field, was forced to li-

cense the technology last year. Dow Chemical owns 50% of the \$505 million (sales) joint venture that invented EB-Clean, but last month Baird agreed to buy out Dow for \$800 million in cash and warrants.

Schlumberger's own historic strength is giving oilmen an ever clearer picture of the shape of the earth miles below its surface. Since 1927, when brothers Conrad and Marcel Schlumberger lowered an instrument down a well to assess the rock around it, underground evaluation has grown to a nearly \$2 billion (revenues) business for Schlumberger. Here Baird has developed a new marvel called Maxis. With it en-

gineers can get much more data, much more quickly than previously, to create a sharper image.

Oilmen find the service so useful that despite prices 10% above conventional services and shrinking drilling budgets, Maxis jobs doubled last year. Premiums like Maxis help explain why Schlumberger netted 13% of its \$6.3 billion revenues in the 12 months through last September. In comparison, the median net profit margin for the industry was 1%.

While competitors have laid off thousands, Baird has increased staff a tad, to 53,000. Not bureaucrats, though. They're top-notch lab and field workers who are given tremendous responsibility to tailor their work to customers' needs.

But even Baird can't completely buck his industry's depression. PaineWebber's Carroll figures Schlumberger's earnings in 1992 and 1993 will be about flat with 1991's \$663 million, or \$2.79 per share. But with renewed drilling in 1994, earnings could surge to \$3.50 a share, highest in a decade. —T.M. ■

refining and marketing profits, although you can't tell this from recent results. For Exxon, these profits dropped 71% in 1992's first nine months. Here, though, low crude prices help, and margins will widen as economic recovery spurs demand. But in Europe and the Far East lingering recession will continue to restrict profitability.

Last year the spot price of natural gas ranged from a calamitous low of 89 cents per thousand cubic feet to a stunning high of \$2.51. The longtime gas glut appears to have dissipated; that's why gas has recently sold for a relatively high \$2 or so. Producers, however, pray for a normally chilly winter—no more, no less. Mild weather could tug prices back toward \$1. A long hard freeze, with sky-high prices and even shortages, would repel potential customers and invite re-regulation. "It's a narrow channel," sighs Apache Corp. Chairman Raymond Plank,

"and the boat could hit a reef on either side."

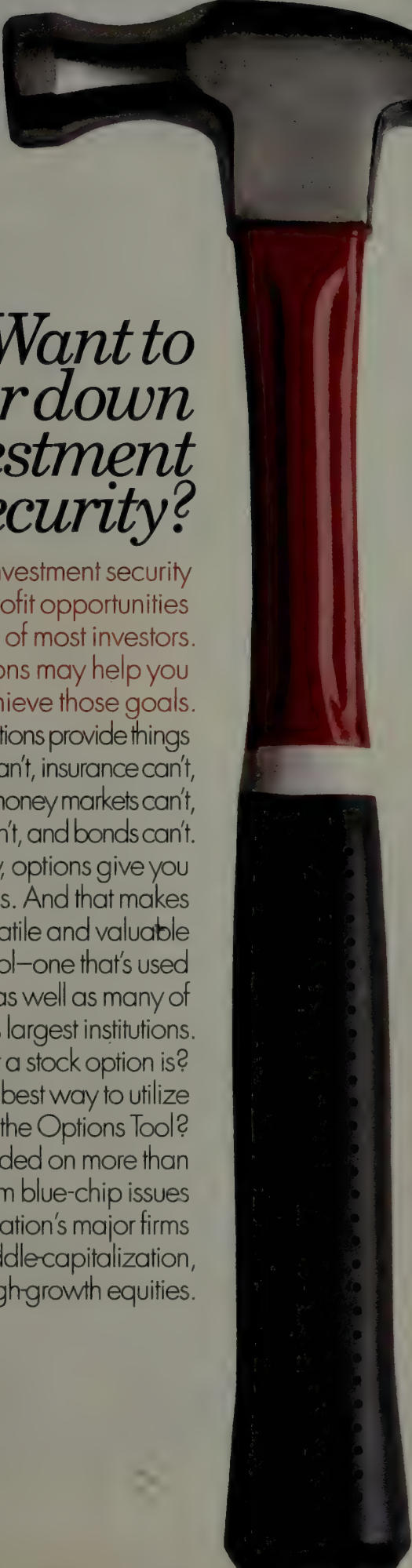
For gas pipeliners, new federal rules bar the pipelines from their old role as gas merchants. Although separate subsidiaries can still broker gas for customers, the pipelines themselves will be able to make money only by shipping and storing gas. This also means that gas distributors must now line up their own reliable gas supplies. What the pipeliners will need to succeed: low costs, access to diverse gas basins and good customer service. Some likely winners are El Paso Natural Gas (spun off in June from Burlington Resources), Enron and Coastal Corp.

Discouraged by slim profits and low prices, oil companies spent about 10% less on drilling new wells in 1992. Most oil service outfits are ailing badly; some, like Halliburton, are shrinking already shrunken capacity and overhead even further. Little relief is expected this year. ■

Energy Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Petroleum Heat & Pwr	def	NE	4.7	98.3	14.4	-10.5	NM	D-D	495	-8	def
Hadson	def	NE	def	131.4	11.2	-7.6	NM	P-D	430	-13	def
Maxus Energy	def	def	def	64.8	NM	-10.5	NM	D-D	716	-55	def
Medians	7.0	2.8	3.6	40.8	7.5	-8.6	NM	-76.8	2,039	12	0.6
Oilfield services											
Schlumberger	18.7	21.1	20.2	8.2	5.9	5.1	31.7*	22.4	6,311	813	12.9
Dresser Industries	9.2	6.4	6.5	4.4	6.8	-14.8	32.2	-26.3	4,081	115	2.8
Baker Hughes	8.4	0.0	1.9	33.3	6.2	-10.2	43.2†	P-Z	2,539	5	0.2
Halliburton	4.8	def	1.2	21.7	16.5	-6.6	NM	P-D	6,606	-3	def
Baroid	3.1†	def	1.4	35.9	3.4	-2.2	NM	P-D	611	-4	def
Tidewater	NA	2.3	3.0	14.8	15.2*	-1.0	NM	-78.5	531	12	2.3
Medians	8.4	1.1	2.5	18.3	6.5	-4.4	NM	-78.5	3,310	9	1.2
Gas producers & pipeliners											
Coastal Corp	10.6	4.3	5.1	60.7	7.8	2.4	11.4	-51.5	10,124	87	0.9
Enron	10.5	15.2	7.4	42.5	10.0	-6.4	24.3†	25.0	13,695	294	2.2
Tejas Gas	9.4†	9.2	7.1	61.2	40.6	26.6	15.2	39.3	494	11	2.2
Williams Cos	9.1	8.5	6.4	45.5	2.1	13.6	-17.1*	-8.1	2,304	112	4.9
Burlington Resources	8.4†	6.6	5.1	23.8	-10.0	-27.9	34.8†	-5.8	1,290	194	15.0
Sonat	7.8	17.0	9.4	46.8	NM	-4.2	-9.5*	91.6	1,415	177	12.5
Mitchell Energy	5.8	4.4	3.0	50.3	9.4	2.3	48.8	-46.9	880	28	3.2
Panhandle Eastern	def	13.1	8.3	51.1	9.5	-6.8	NM	D-P	2,437	174	7.2
Transco Energy	def	def	def	67.0	-4.4	-0.8	NM	D-D	2,722	-211	def
American Oil & Gas	def	14.4	13.0	28.6	52.3	6.0	NM	29.5	408	18	4.5
Medians	8.1	8.9	6.8	48.6	8.6	0.8	1.0	9.6	1,860	100	3.8
Gas distributors											
Nicor	17.3	15.2	8.0	26.8	-1.7	-1.3	NM	-0.5	1,493	107	7.1
MCN	14.1	13.7	8.6	43.1	-2.0	8.6	-14.1*	8.9	1,382	49	3.5
Peoples Energy	13.1	12.2	7.7	35.7	-1.1	-0.6	NM	0.5	1,097	70	6.4
Piedmont Natural Gas	13.0	14.9	8.8	36.7	NM	12.3	NM	73.9	449	36	8.0
UtiliCorp United	12.9	7.3	5.7	49.1	12.9	31.0	5.6	-34.1	1,269	56	4.4
Washington Gas Light	12.1	12.2	8.7	35.2	1.6	6.9	NM	11.0	746	52	7.0
Western Resources	12.0	11.1	9.2	43.2	-0.7	33.0	-4.3	5.6	1,438	108	7.5
Brooklyn Union Gas	10.8	9.4	5.8	45.1	3.1	8.5	-4.2	-7.3	1,075	60	5.6
Atlanta Gas Light	10.7	11.0	7.1	33.8	NM	3.2	NM	9.2	995	55	5.6
Laclede Gas	10.7	9.9	7.1	38.6	-1.9	-4.5	-5.5	-9.0	418	18	4.4
UGI	10.6	9.4	7.7	45.4	6.3	0.7	NM	23.7	698	31	4.4
Eastern Enterprises	9.9	7.6	5.8	33.6	NM	8.4	9.9	-5.0	1,064	38	3.6
Wicor	9.6	7.7	5.5	31.8	-1.6	4.1	NM	88.4	692	19	2.7
Southwest Gas	6.7	2.5	4.3	57.0	10.7	-11.5	NM	D-P	731	9	1.3
Ultramar	NA	NA	NA	50.1	20.0*	NA	NA	NA	2,614	55	2.1
Medians	11.4	10.4	7.4	38.6	-1.1	5.5	NM	7.3	1,064	52	4.4
Integrated gas											
Equitable Resources	11.2	10.2	6.4	30.9	11.1	13.1	6.8	-22.4	770	57	7.4
National Fuel Gas	10.8	11.1	7.5	38.2	4.4	6.3	3.6	19.0	920	60	6.6
Questar	10.6	11.7	7.9	29.6	3.5	-3.4	14.0	-6.0	599	63	10.5
Consol Natural Gas	10.2	10.2	6.4	27.7	1.6	-7.5	-3.0	15.1	2,488	194	7.8
Oneok	9.6	9.3	6.4	38.2	3.9	-1.8	25.5	-9.0	677	33	4.8
KN Energy	5.1	9.8	7.4	46.9	5.7	-6.8	NM	500.0+	367	18	5.0
Arkla	3.4	0.8	3.7	56.5	18.5	-0.3	NM	-72.0	2,727	16	0.6
Pacific Enterprises	1.9	def	def	49.8	5.8	-42.2	NM	P-D	3,815	-740	def
Enserch	1.8	def	3.1	44.1	0.6	-3.0	NM	P-D	2,747	10	0.4
Columbia Gas System	def	7.8	5.8	48.8	-5.1	14.2	NM	D-P	2,777	85	3.1
Medians	7.3	9.5	6.4	41.2	4.2	-2.4	NM	-7.5	1,704	45	4.9
Industry medians	9.6	6.9	5.7	38.4	6.0	-3.8	NM	-24.4	1,618	49	2.8
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. P-Z: Profit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95. Sources: *Forbes*; *Value Line Data Base Service* via *Lotus One Source*.

the Options Tool



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Entertainment & information

Movie companies, television networks and publishers felt a mild recovery from the recession.

By Elizabeth Comte

Entertainment and media companies had a small rebound last year, with nearly every segment showing some earnings gain over 1991. The Olympics and the election gave networks, cable systems and newspapers a boost in ad revenues. Network TV ad spending was up about 4%, to \$10 billion. That's expected to rise 3% to 5% this year.

There was more good news for the networks: At least temporarily, the erosion in the number of viewers is slowing. Network prime-time share dropped only two percentage points in 1992, compared with as much as ten points in years past. ABC and CBS were profitable. NBC lost money. Fox, the fourth network, increased its ratings last season 20% by appealing to the youth market.

Despite all the public complaining by cable operators, the cable bill that became law last fall may have little or no impact on their earnings. For cable systems, one of the most troubling parts of the bill was the regulation of rates for basic-tier cable service, because it is the most profitable area. Nevertheless, Bear, Stearns analyst Kenneth Goldman predicts a 10% cash flow growth rate for cable operators from core business over the next five years. Even

with a recession, basic cable subscriptions grew by 2.5% last year, to over 57 million.

Last year Hollywood celebrated the largest Thanksgiving weekend in box office history, with \$157 million worth of tickets sold. With movies such as *Home Alone 2*, *Aladdin* and *Bram Stoker's Dracula* now in theaters, 1992 rivaled the record year 1989 in ticket sales. Meanwhile, the industry is learning how to find new funds to replace Japanese money that formerly provided financing of projects. Fewer Japanese investors these days have the necessary deep pockets. So Walt Disney, for example, had a \$400 million Eurobond offering last fall.

Further evidence of the long-term decline of the newspaper business: It experienced only a slight upturn in revenues last year. Circulation dropped a bit, to 60.5 million, as more afternoon papers ceased publishing. Overall revenue rose by a slim 2.5%. County NatWest analyst Brenda Stanny expects a bigger gain this year, about 6%. But there is nothing on the horizon to suggest that the dailies can reverse their losses in market penetration against competition from newer technologies. ■

Giving viewers a choice

In these days of channel-hopping viewers, Viacom Inc. seems to have a big edge on the competition—if diversity is the key to attracting an audience.

It owns the MTV, VH-1, Nickelodeon and Showtime cable TV channels, 5 TV stations, 14 radio stations and the rights to such popular syndicated TV shows as *The Cosby Show* and *Roseanne*.

Even though Viacom now has annual revenues of over \$1.8 billion, it still has an entrepreneurial environment. Chairman Sumner Redstone, 69, is no fan of rock groups like Guns N' Roses, so the running of MTV is left up to the streetwise instincts of

MTV's young employees. Last year staffers suggested MTV take an active role in getting young people to vote. Result: MTV's "Choose or Lose" campaign, which helped in part to turn out the youth vote. "We're always on the lookout for new opportunities," Redstone says.

With a hold on young viewers, Viacom is taking the opportunity to expand its franchises. It's studying a three-channel version of MTV. Though it isn't final, the idea is to target different segments of viewers; so one channel might play only Top 40 while another might be devoted to rap music.

A Japanese launch of MTV is imminent. By the end of 1994 MTV Europe is expected to be the most

widely distributed network in the world. Operating income from Viacom Networks, which includes MTV, is estimated to have risen 30% in 1992, to over \$220 million.

Nickelodeon, the largest provider of kids' programming, added a series of cartoons, *The Ren & Stimpy Show*, *Rugrats* and *Doug*, plus Snick, a block of four different Saturday night shows. Nickelodeon toys are on sale, and a magazine is planned.

In 1993 Nickelodeon will expand into Europe. As demand—and channel capacity—grows, U.S. Nickelodeon may be split into different channels for different age groups.

It's no surprise that Viacom wants channel capacity increased. It owns



Viacom's Sumner Redstone
Diversity means viewers.

cable properties that serve 1.1 million subscribers and is testing a 150-channel system in Castro Valley, Calif. Redstone hopes this test will help determine what viewers want and what they're willing to pay. "We try to keep ourselves from forming preconceived notions about what the consumer wants," he says. —E.C. ■

Entertainment & information	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Broadcasting & cable											
King World Prods	55.8	38.3	28.4	22.3	16.7	5.7	23.5	2.1	503	95	18.9
CBS	15.2	25.9	13.6	58.6	-4.4	15.1	NM	D-P	3,472	139	4.0
Capital Cities/ABC	14.0	10.5	9.6	21.4	5.7	-2.1	16.1	-2.0	5,262	386	7.3
Gaylord Entertainment	12.4*	12.7	5.7	49.8	11.9	5.6	NM	D-P	627	24	3.8
Viacom	def*	3.4	7.4	78.2	14.1	8.2	NM	D-P	1,816	26	1.4
Tele-Communications	def	def	5.1	79.2	38.6	-24.4	NM	D-D	2,868	-9	def
Comcast	def	def	0.8	90.1	37.0	16.0	NM	D-D	823	-169	def
Cablevision Systems	NE	NE	def	178.4	28.7	-4.8	NM	D-D	568	-253	def
Multimedia	NE	NE	23.1	158.2	6.6	8.7	38.4*	8.5	553	56	10.1
Turner Broadcasting	NE	NE	8.8	89.7	23.7	13.3	NM	D-P	1,634	52	3.2
Medians	def	0.9	8.1	78.7	15.4	7.0	NM	5.3	1,229	39	3.5
Movies											
Walt Disney	22.6	20.5	13.3	26.1	21.4	21.4	12.2	27.2	7,504	817	10.9
Paramount Commun	19.2	6.2	6.5	15.6	NM	8.2	NM	61.9	4,229	243	5.8
Handleman	17.3	15.7	11.5	37.5	15.1	41.4	NM	61.8	1,109	41	3.7
Time Warner	def	def	3.4	43.9	30.7	6.9	NM	D-D	12,739	63	0.5
LIVE Entertainment	def	def	def	72.8	17.6	-35.9	NM	D-D	324	-21	def
AMC Entertainment	def	6.0	8.1	91.2	3.6	-3.3	NM	D-P	404	3	0.7
Medians	4.6	6.1	7.3	40.7	16.4	7.5	NM	44.5	2,669	52	2.2
Publishing											
Pulitzer Publishing	49.4	27.9	16.4	40.6	3.5	0.3	NM	84.8	396	20	5.1
Reader's Digest Assn	39.0	30.1	29.0	1.2	12.4	13.3	19.6	15.7	2,716	248	9.1
Dun & Bradstreet	25.1	24.5	24.5	0.0	9.2	0.4	4.7	8.0	4,718	530	11.2
Washington Post	22.7	15.1	14.3	4.9	2.8	2.9	NM	23.3	1,424	140	9.8
Gannett	19.1	20.8	11.9	39.4	3.9	1.5	4.1	10.1	3,435	331	9.6
Knight-Ridder	18.7	12.7	9.1	26.6	3.5	3.0	NM	7.5	2,304	149	6.5
Commerce Clearing	18.6	def	def	3.7	7.5	-5.0	-8.4	P-D	669	-11	def
RR Donnelley & Sons	15.7	13.3	9.6	16.9	11.8	5.9	4.4	12.1	4,122	230	5.6
McGraw-Hill	15.5	16.0	11.3	25.8	3.9	5.5	NM	3.5	2,040	159	7.8
Dow Jones	14.6	6.7	6.0	18.7	8.8	5.0	-17.3	4.4	1,798	96	5.4
New York Times	13.6	2.8	3.2	13.1	1.8	3.8	-18.0	21.9	1,771	30	1.7
Banta	12.9	14.8	11.8	19.1	17.0	10.0	NM	68.0	618	34	5.5
Central Newspapers	12.3	9.4	8.7	0.7	1.8	1.9	NM	13.2	428	27	6.4
American Greetings	12.2	11.9	9.6	15.0	6.8	10.4	15.4	5.9	1,623	102	6.3
Houghton Mifflin	11.8	11.9	10.4	20.3	7.6	-2.1	NM	18.5	455	26	5.7
Times Mirror	11.1	5.9	5.0	30.4	4.7	2.3	-23.2	-18.3	3,666	115	3.1
McClatchy Newspapers	10.9	8.7	6.8	6.0	8.4	1.7	-12.9	17.4	434	29	6.7
EW Scripps	10.7	10.6	7.5	28.6	4.5	-0.2	9.3	18.5	1,289	71	5.5
Tribune	9.7	10.1	8.3	27.8	NM	2.4	-6.3	D-P	2,082	127	6.1
Western Publishing	9.7	8.8	8.9	0.0	8.4	20.8	-14.2	500.0+	591	19	3.2
AH Belo	8.4	13.5	7.1	44.3	2.6	16.2	NM	63.4	498	32	6.4
Meredith	8.3	0.6	0.6	27.9	3.3	-1.7	NM	-92.6	726	2	0.2
Affiliated Pubs	5.7	def	def	25.1	NM	-4.0	NM	P-D	410	-52	def
Media General	def	9.9	5.1	50.7	-3.0	-2.7	NM	D-P	577	20	3.5
General Cinema	def†	def	2.6	46.9	22.0*	0.5	NM	D-D	3,604	-186	def
Scholastic	NA	32.5	14.0	36.0	19.3	16.3	NM	60.6	497	14	2.7
Medians	12.3	11.2	8.8	22.7	4.6	2.3	NM	14.5	1,357	33	5.6
Advertising											
Interpublic Group	20.8	18.4	15.9	23.8	14.4	17.0	16.0	17.1	1,802	106	5.9
Omnicom Group	20.4	17.1	14.6	43.3	11.2	14.9	10.7*	9.5	1,360	62	4.6
ADVO	18.6	18.9	20.8	0.0	7.8	12.9	44.2†	4.7	788	20	2.6
Grey Advertising	10.6	4.2	4.9	2.5	14.6	8.2	NM	-63.4	556	5	1.0
WPP Group	1.4	def	NA	46.6	NA	6.0	NA	D-D	2,307	NA	NA
Medians	18.6	17.1	15.3	23.8	12.8	12.9	13.4	4.7	1,360	41	3.6
Industry medians	12.3	10.1	8.7	27.8	8.1	5.5	NM	12.1	1,360	38	4.8
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95. Sources: Forbes; Value Line Data Base Service via Lotus One Source.



Partnerships In Engineering Excellence

Reestablishing an American Legend

Perhaps no other product has come to symbolize America's passion for freewheeling road travel and personal independence more than a Harley-Davidson®. For legions of riders worldwide, a Harley-Davidson® motorcycle represents the uniquely American longing for the open road, unconfined by the walls and windows of an automobile.

But only ten years ago, Harley-Davidson was struggling to sell its products. Like so many other icons of American

competition had to offer. These new bikes still provided the muscle and machismo that gave Harleys® their legendary appeal, but riders no longer needed to carry tool kits when they went for a ride.

The result? A renewed love affair with Harley-Davidson. Not only traditional blue-collar cycle fans, but also doctors, lawyers, chief executive officers and Hollywood celebrities started riding Harley-Davidson® motorcycles. The company's

success became a textbook example of how an American business can right itself when quality becomes its mission.

Along the way, Parker Hannifin Corporation, the world's largest manufacturer of motion-control components and systems, has been there to help. Parker hydraulic and pneumatic products — ranging from pumps, valves, cylinders, filters, fluid connectors and seals to automation components and systems — are used throughout Harley-Davidson® manufacturing plants. And Parker seals are also an integral part of the hydraulic brake system on every Harley® produced.

Support like this has helped Harley-Davidson® motorcycles become the



most sought after in the world, with demand greatly outweighing supply. Harleys have become one of the bright spots in U.S. foreign trade with 31 percent of the company's unit production slated for export.

It's this type of partnership in excellence that is the driving force behind Parker's worldwide preeminence in motion-control components and systems. Parker operates 200 manufacturing plants and administrative offices around the world, supporting more than 4,500 distributors and more than 258,000 customers in every corner of the world with more than 800 product lines for hydraulic, pneumatic and electromechanical applications in some 1,200 industrial and aerospace markets.

manufacturing, Harley-Davidson had become a victim of its own success, turning out the same basic machines year after year. A clientele that included many do-it-yourself mechanics virtually assured the company of sales and forgave quality oversights. After all, working on your Harley® was half the fun of owning one.

That complacency nearly doomed Harley-Davidson when overseas manufacturers unveiled a new generation of higher-quality, technically advanced motorcycles.

But Harley-Davidson, the all-American company, answered the new challenges. During the early 1980s, Harley-Davidson became committed to manufacturing high-quality products that could compete with the very best its



Parker and Harley-Davidson travel the road to excellence

The road champion image of Harley-Davidson has been restored. This legendary company—unique in American industry—recently underwent a complete metamorphosis in order to prevail against formidable competition from abroad. And Parker Hannifin, the world's leader in motion-control components and systems, was there to help.

Much of the Harley-Davidson rebuilding process was a team effort guided by President and CEO Rich Teerlink. All facets of the company were painstakingly studied. Harley-Davidson then adopted employee-driven quality programs, calling for

every member of the workforce to become fully involved.

Harley-Davidson also employed the latest in manufacturing technology. That's where Parker came in.

Harley-Davidson's engineering team employed Parker's innovative manufacturing technology to further improve productivity and quality on the factory floor. Parker's advanced hydraulic and pneumatic components and systems are used throughout Harley-Davidson® manufacturing plants to improve plant efficiency. And Parker seals are used on the

braking system of every Harley®.

Parker serves over 1,200 markets. More than 250,000 customers around the globe rely on the innovation and dependability of Parker technology, components and systems.

These partnerships have helped make Parker a worldwide leader in the motion-control industry. For more information, write for our Annual Report: Parker Hannifin Corporation, Dept. FB-21, 17325 Euclid Ave., Cleveland, OH 44112-1290. Or call 1-800-C-PARKER (1-800-272-7537) for product information.

A partnership in vital technologies



PH-NYSE



Financial services

Banks and brokerage firms had a great year in 1992. Thank you, Alan Greenspan.

By Matthew Schiffrin

Remember how Sherman McCoy's job was described in *Bonfire of the Vanities*? Making money on Wall Street, Tom Wolfe wrote, was like collecting crumbs that drop off cake as it is passed around. Last year the cake crumbs for financial institutions were both plentiful and rich.

Federal Reserve Chairman Alan Greenspan was successful at lowering short-term interest rates, but longer-term rates were more resistant. The unusually steep yield curve meant fat returns for brokerage firms and banks, which, essentially, rent money at short-term rates and lend it out at longer-term rates.

Wertheim Schroder's James Hanbury expects the brokerage industry's pretax profits to be about \$6.8 billion for 1992, surpassing 1991's record of \$5.8 billion. Besides an explosion of net interest income, most firms benefited from the massive flow of funds out of low-rate bank deposits and into higher-yielding investment products

sold by brokers.

Underwriting was hot. Fixed-income underwriting volume rose to around \$800 billion, up from \$515 billion in 1991. Equity underwriting hit an estimated \$70 billion. And ever since the wild swings in earnings that characterized the 1980s, firms like Merrill Lynch have been especially cautious about expenses. They've also increased their stream of fees from relatively stable products like mutual funds.

The banking industry also prospered from the Federal Reserve's actions. Net interest margins reached as high as six percentage points for banks like Banc One. In this environment, many banks and thrifts strengthened their capital positions. But with a sluggish economy coupled with encroachment from other financial intermediaries, banks had a hard time expanding their traditional business, lending. By the end of the first half of 1992 the Federal Deposit Insurance Corp. reported that over \$730 billion

Financial services	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos	latest 12 mos	latest 12 mos
Company	%	%	%	%	%	%	%	%	\$mil	\$mil	%
Multinational banks											
BankAmerica	14.9	13.6	12.8	51.8	2.2	14.1	18.2†	-7.9	14,232	1,304	9.2
Bankers Trust NY	13.5	23.8	13.2	52.6	8.5	-5.6	NM	11.1	6,647	728	11.0
Republic New York	11.2	13.9	8.3	66.2	14.3	-12.0	22.5	12.5	2,362	250	10.6
JP Morgan & Co	10.5	23.1	13.7	44.9	11.3	-1.0	NM	28.7	10,334	1,353	13.1
First Chicago	9.3	def	def	35.1	5.7	-14.3	-46.8†	P-D	4,383	-252	def
Chemical Banking	1.5*	1.0	5.0	40.6	1.9	-11.6	NM	-87.8	12,821	362	2.8
Chase Manhattan	0.3	11.1	9.4	47.8	5.8	-7.9	NM	-9.1	11,354	605	5.3
Citicorp	def	1.2	5.5	67.7	7.9	-2.8	NM	D-P	32,039	309	1.0
Continental Bank	def	15.4	10.6	38.3	NM	-23.7	NM	D-P	1,881	211	11.2
Bank of Boston	def	14.6	10.1	33.7	6.8	15.8	NM	D-P	5,254	229	4.4
Medians	5.4	13.7	9.7	46.3	6.3	-6.8	NM	11.8	8,491	336	7.2
Regional banks											
State Street Boston	19.5	17.4	16.0	14.2	16.7	5.8	13.3	-0.3	1,400	145	10.4
Bancorp Hawaii	18.7	16.8	16.0	9.4	19.5	-7.5	14.7	12.9	960	124	13.0
Norwest	18.2	18.4	11.3	56.7	13.5	7.2	9.2†	17.1	4,517	493	10.9
Fifth Third Bancorp	17.7	17.8	17.6	10.3	24.8	0.6	12.3	16.7	886	156	17.6
Banc One	17.6	16.9	16.1	18.5	18.1	38.5	13.0	21.0	5,243	690	13.2
Northern Trust	17.6	17.5	14.4	23.3	12.5	-5.0	NM	14.0	1,233	144	11.7
SunTrust Banks	17.1	16.0	14.4	17.1	7.6	-7.0	9.3	12.4	3,174	403	12.7
Firstar	16.7	17.5	15.7	14.2	13.0	1.6	-3.0†	19.5	1,211	157	12.9
Old Kent Financial	16.0	15.7	14.4	2.3	12.7	-3.0	5.3	17.5	836	106	12.6
National City	16.0	14.6	12.8	11.8	8.4	3.7	7.9	25.9	2,731	320	11.7

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: *Forbes*; Value Line Data Base Service via Lotus One Source.

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☐ CORRECTED (if checked)		OMB No 1545-0115		1099 Miscellaneous Income
PAYER'S name, street address, city, state, and ZIP code		1 Rents \$	2 Royalties \$	
PAYER'S Federal identification number		3 Prizes, awards, etc. \$	4 Federal income tax withheld \$	1991 Copy 2 To be filed with recipient's state income tax return.
RECIPIENT'S identification number		5 Fishing boat proceeds \$	6 Medical and health care payments \$	
RECIPIENT'S name		7 Nonemployee compensation \$	8 Substitute payments in lieu of dividends or interest \$	
Street address (including apt. no.)		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale ☐	10 Crop insurance proceeds \$	
City, state, and ZIP code		Form 1099-MISC Department of the Treasury Internal Revenue Service		

These are just **three of 20 questions*** which may help to determine if you are *erroneously* treating former, retired or special project employees as Independent Contractors:

- ☐ Is your company the sole or major source of income for the individual?
- ☐ Does the consultant provide the same or similar services as your own employees?
- ☐ Do you instruct the person as to when, where and how work is performed?

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They like to win

"In football if you are big and fast and agile they say you are unbeatable," says Kenneth Lewis, president of NationsBank's general banking division. It's an appropriate analogy for Charlotte, N.C.'s NationsBank because it's so nimble for a bank of its size (assets, \$118 billion). "We like to win," says Lewis.

Under the leadership of Chief Executive Hugh McColl, NationsBank has grown to more than 1,800 branch offices in nine states. Its risk-adjusted capital is a solid 7.54%, return on assets 1.22%, and its stock is selling for nearly 190% of book value.

What wows Wall Street is NationsBank's knack for making well-timed strategic acquisitions. "They seem to catch everyone else napping," says Sally Pope Davis, an analyst at Goldman, Sachs. "McColl is not afraid to act."

Despite that rapid growth, NationsBank has managed to keep its overhead expense ratio at a respectable 64% of operating revenue. According to President Lewis, the secret is a special team of managers called into action each time NationsBank makes an acquisition. The team folds the new operations into the overall corporate structure and it cuts out fat. When it acquired beleaguered



Kenneth Lewis, president of NationsBank's general banking division
A big buyer nimble enough to catch everyone napping.

C&S/Sovran in 1991, for example, the team eliminated redundant branch offices and cut around 6,000 employees.

Last July NationsBank made a \$200 million investment in the preferred stock of MNC Financial that gives NationsBank an option to acquire the entire \$16 billion Maryland-based bank by 1997. It also expands NationsBank's empire all the way from Texas to a dominant position in the lucrative market of metropolitan Wash-

ington, D.C and Maryland. And in mid-November the company announced it would pay \$100 million to Chrysler Corp. for \$4 billion in consumer and business finance assets of Chrysler Financial.

But what may turn out to be NationsBank's smartest move yet is its recent agreement to join forces with broker Dean Witter Financial, which is being spun off from troubled Sears. The deal brings Dean Witter knowhow, products and salesmanship into

NationsBank branch offices under the banner of Nations Securities. The entity will start with 400 representatives and is expected to grow to over 1,000. In this way NationsBank is shrewdly using its extensive branch system as retail storefronts selling a wide array of products.

"We don't care whether a customer buys a CD or a stock, we just want to keep them coming in the door," says Lewis.

—M.S. ■

Financial services	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Wells Fargo	15.8	def	2.0	52.5	8.5	-9.8	NM	P-D	5,375	-6	def
SouthTrust	15.7	15.7	14.2	23.2	16.7	2.9	6.7	14.7	954	106	11.1
NBD Bancorp	15.7	14.0	13.9	28.6	11.2	1.3	10.3	2.3	2,777	322	11.6
US Bancorp	15.6	13.6	10.0	43.3	19.2	-3.6	14.1	-0.5	1,938	196	10.1
Marshall & Ilsley	15.4	16.0	14.5	15.5	9.8	-5.1	6.8	21.1	802	111	13.8
KeyCorp	14.9	16.5	13.3	29.0	21.1	2.2	8.3	22.0	2,244	233	10.4
CoreStates Financial	14.7	16.2	11.4	41.3	14.0	-14.4	NM	159.4	2,139	258	12.1
Wachovia	14.5	11.2	10.8	5.4	12.7	-6.5	NM	-22.5	2,840	283	10.0
First of America Bank	14.2	14.9	12.0	15.2	21.8	21.6	3.5	-1.8	1,757	171	9.7
Union Bank	14.2	9.3	7.8	24.9	30.4	-13.9	5.0	-19.0	1,440	94	6.5
Huntington Bcshs	14.1	15.4	14.2	12.1	13.6	1.2	7.4	16.8	1,245	132	10.6
Commerce Bcshs	13.6	13.0	12.7	1.4	6.4	-6.3	12.7	13.7	565	69	12.2
AmSouth Bancorp	13.5	13.4	12.2	15.2	11.5	-4.7	NM	12.7	853	96	11.3
First Empire State	13.4	17.5	17.4	0.3	14.9	7.7	16.1	48.2	890	95	10.6
First Union	13.2	13.9	10.9	39.0	12.5	7.1	-1.4	47.8	4,472	469	10.5
First Tennessee Natl	12.9	19.7	16.6	20.7	8.3	2.7	NM	44.4	770	87	11.3
Michigan National	12.9	9.1	8.2	7.4	7.3	-10.0	NM	109.5	1,021	67	6.5
PNC Financial	11.7	14.4	12.9	15.5	19.2	-10.5	-14.2	283.9	4,076	493	12.1
Boatmen's Bancshs	11.5	13.7	13.0	16.2	3.8	5.2	8.3	19.2	1,660	193	11.6
Meridian Bancorp	11.1	13.2	12.3	11.4	11.0	-10.3	-11.0	3.9	1,087	109	10.0
NationsBank	10.9	9.3	8.9	28.5	18.2	-11.1	-17.2	27.4	10,489	667	6.4
Barnett Banks	9.9	8.9	8.5	24.0	12.0	-8.9	-15.7	260.3	3,039	196	6.4
Integra Financial	9.6*	17.1	15.8	50.3	6.1	6.3	NM	273.3	839	97	11.6
Crestar Financial	9.4	7.5	7.4	20.1	8.2	-11.9	-14.4	127.3	1,105	59	5.4
Mercantile Bancorp	9.0	14.3	13.3	16.8	3.8	2.7	NM	9.9	803	80	10.0
Signet Banking	7.9	3.3	3.8	27.1	8.6	-13.1	NM	-27.9	1,135	26	2.3
Fleet Finl Group	7.4	8.2	6.3	48.7	15.2	18.1	-19.1	D-P	4,752	233	4.9
Bank of New York	7.2	11.4	9.4	31.3	25.3	-18.5	-17.0	221.3	3,697	330	8.9
First Fidelity Bncp	7.1	14.8	12.0	21.7	5.4	-11.5	NM	8.6	2,522	282	11.2
UJB Financial	7.0	5.4	5.8	6.3	14.1	-5.8	-25.9	D-P	1,158	45	3.9
Dominion Bankshares	6.0	def	def	19.6	13.4	-15.1	-22.7	D-D	900	-31	def
Society	5.2*	6.8	6.7	24.8	5.7	-12.4	-20.3*	-9.3	2,468	122	5.0
First Bank System	5.1	16.6	11.8	33.3	-7.0	-9.7	NM	32.8	1,697	232	13.7
Mellon Bank	4.7	19.7	13.1	32.8	NM	-4.1	NM	493.6	3,057	404	13.2
BayBanks	3.2	6.1	5.9	9.2	9.8	-11.0	-31.5	D-P	931	32	3.4
First American Corp	def	9.4	9.2	3.6	3.4	-6.4	-31.6	D-P	535	36	6.7
Valley National	def	6.4	6.7	17.6	1.6	-4.7	NM	-7.5	1,073	35	3.2
First Interstate Bncp	def	3.7	5.2	48.8	NM	-20.4	NM	D-P	4,282	140	3.3
MNC Financial	def	def	def	51.7	10.8	-29.5	NM	D-D	1,556	-75	def
Shawmut National	def	4.3	5.4	34.0	4.2	-12.2	NM	D-P	2,117	52	2.5
Premier Bancorp	def	16.5	15.6	23.9	-4.1	-6.6	NM	146.8	356	30	8.4
Hibernia	def	def	def	3.4	16.0	-33.3	NM	D-D	510	-47	def
Riggs National	def	1.8	3.6	43.7	8.3	-21.4	NM	D-P	499	5	1.0
Midlantic	def	def	def	34.5	9.4	-29.0	NM	D-D	1,500	-85	def
Comerica	NA	11.3	10.6	20.2	11.1	-9.5	27.8*	-22.1	2,360	216	9.2
Medians	12.3	13.7	11.8	20.2	11.2	-6.4	-17.2	17.5	1,440	124	10.1

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

in bank assets had been devoted to investment securities, compared with almost \$550 billion in commercial loans.

One of the few ways that banks can increase earnings these days is to buy assets and cut costs. That is why Banc One, First Union, Norwest, NationsBank (*see box, p. 148*), KeyCorp, Mellon Bank and other big regional banks have been on an acquisitions spree. The trend should continue this year, but perhaps at higher prices.

The government-sponsored Student Loan Marketing Association tops our list again this year, with an astounding five-year average return on equity of 38%. Incoming President Clinton has suggested a plan that could make student loans available directly from the government, a move that could be disastrous to lenders like Sallie Mae. But don't rule out Sallie Mae's ability to lobby effectively to get Clinton's plan weakened.

Financial services	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital		Sales		Earnings per share				
	5-year average	latest 12 mos	latest 12 mos	Debt/capital	5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos	latest 12 mos	latest 12 mos
Company	%	%	%	%	%	%	%	%	\$mil	\$mil	%
Thrift institutions											
Golden West Finl	18.5	19.1	14.7	36.4	13.3	-6.2	5.3	27.5	2,099	277	13.2
Standard Fedl Bank	12.8	17.0	16.0	7.5	2.7	-5.9	NM	63.3	830	92	11.1
Gt Western Financial	10.0	9.4	7.3	49.0	4.6	-15.1	-9.8	27.8	3,457	223	6.4
HF Ahmanson	10.0	9.5	6.9	38.6	12.3	-18.5	-8.5	30.3	3,842	205	5.3
Washington Mutual	8.7	16.8	14.4	6.7	10.1	7.0	NM	20.0	775	91	11.7
FirstFed Michigan	5.6	6.9	6.3	54.5	-4.5	-13.6	-26.1	140.5	833	33	3.9
Commercial Federal	4.4	22.9	19.3	7.8	NM	-14.7	NM	126.3	450	44	9.8
TCF Financial	def	10.7	12.6	22.5	-6.5	-7.8	NM	46.1	413	23	5.6
Coast Savings Finl	def	8.2	8.1	23.4	NM	-30.7	NM	-22.7	666	23	3.5
Anchor Bancorp	def	7.6	6.2	14.2	NM	-26.5	NM	-55.6	629	27	4.4
GlenFed	def*	def	def	34.8	-4.9	-24.8	NM	D-D	1,463	-158	def
CalFed	def*	def	def	19.2	-5.3	-25.2	NM	NA	1,429	-144	def
People's Bank	def†	4.8	4.8	0.0	6.0	-13.3	NA	D-P	548	14	2.6
Dime Savings Bank FSB	def	def	def	60.0	3.7	-14.5	NM	D-D	865	-169	def
Meritor Savings Bank	def	def	def	74.1	-21.3	-18.5	NM	D-D	463	-144	def
Medians	def	8.2	6.9	23.4	-4.5	-14.7	NM	27.6	830	27	4.4
Brokerage & commodity											
Morgan Stanley	24.0	18.3	11.9	49.5	23.1	13.9	12.7	16.5	7,374	501	6.8
AG Edwards	19.7	22.3	22.8	0.0	12.0	30.6	15.7	40.8	1,011	112	11.1
Bear Stearns Cos	19.3	26.4	16.5	44.1	8.2	11.1	10.4	91.2	2,684	310	11.6
Charles Schwab	17.4*	35.5	25.0	39.2	18.6	24.0	78.1†	107.5	904	72	8.0
Alex Brown	13.8	24.5	21.8	16.9	6.3	28.8	NM	49.6	454	57	12.5
Salomon	10.8	9.0	7.9	58.9	9.2	-20.3	11.9	-34.2	7,608	378	5.0
Merrill Lynch	9.7	22.4	14.8	60.0	5.4	10.2	NM	64.0	13,283	906	6.8
Commercial Metals	9.6	6.0	6.0	28.6	4.1	0.4	NM	3.6	1,166	13	1.1
PaineWebber Group	4.9	25.2	13.7	49.8	6.4	10.5	NM	D-P	3,356	219	6.5
Medians	13.8	22.4	14.8	44.1	8.2	11.1	10.4	49.6	2,684	219	6.8
Lease & finance											
Sallie Mae	38.3	47.4	4.7	96.4	22.1	-16.2	22.9	41.0	2,873	384	13.4
Federal Natl Mortgage	32.5	28.5	6.5	94.9	6.0	7.5	56.2	11.8	14,183	1,588	11.2
Federal Home Loan Mtg	27.7	23.2	10.3	79.1	18.1	4.7	15.8	26.4	4,417	613	13.9
H&R Block	27.1	26.4	27.0	0.0	15.0	12.2	15.8	12.2	1,377	161	11.7
GATX	17.5	4.8	4.7	68.4	15.3	6.0	24.7	-66.0	1,026	38	3.7
Household Intl	16.8	4.1	7.4	77.5	15.6	-6.6	-6.8	-74.9	4,267	97	2.3
Beneficial Corp	15.6	13.8	8.0	76.0	10.5	-0.4	3.6*	4.5	1,824	163	8.9
Primerica	15.2	19.7	12.0	51.5	60.2	-11.5	40.9	48.8	5,709	668	11.7
American Express	13.8	7.6	6.5	61.9	9.5	5.7	-11.7	-35.0	26,888	592	2.2
Rouse	7.9	0.0	5.2	97.9	10.9	2.5	-30.5	D-Z	587	□	0.0
Ryder System	3.7	4.0	5.3	47.5	5.3	2.0	-36.5	438.5	5,173	64	1.2
New Valley	NE	NE	def	NE	-15.4	65.7	NM	P-D	444	-24	def
MBNA	NA	27.8	28.0	39.8	21.2	7.6	18.9*	15.3	1,168	166	14.2
Medians	16.2	13.8	6.5	68.4	15.0	4.7	15.8	11.8	2,873	163	8.9
Industry medians	10.8	13.7	10.6	28.6	9.5	-6.0	-22.7	17.5	1,608	136	9.0
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.



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Food distributors

Dining out hasn't lost its attraction in these lean times. In fact, restaurants that appealed to price-sensitive customers were booming. But supermarkets and wholesalers struggled.

By Toddi Gutner

Last year lots of Americans couldn't afford to buy new homes, cars or fancy clothing. But they treated themselves to dining out, especially at casual, family restaurants and fast-food chains. The big winners were specialty chains like Applebee's Neighborhood Grill & Bar (too small to fit on our list). It posted a more than 10% increase in same-store sales last year. More traditional hamburger outfits like McDonald's chalked up more modest gains—only about a 2.5% increase in domestic sales per store.

But nearly every chain took advantage of declining real estate prices and lower financing costs to expand. Stable food prices and a plentiful labor supply helped, too. Other than the likelihood of rising health insurance costs, the outlook this year for most restaurant chains remains favorable.

Not so for the supermarket industry. Of the 32 supermarket and convenience store companies in this survey, 14 posted lower sales over the last 12 months. What hap-

Food distributors	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital	Debt/ capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos	latest 12 mos	latest 12 mos
Company	%	%	%	%	%	%	%	%	\$mil	\$mil	%
Supermarkets & convenience											
Food Lion	32.0	25.5	17.9	33.1	22.3	12.0	26.5	5.7	6,951	212	3.1
Albertson's	24.2	20.9	19.5	28.9	10.5	12.7	21.4	1.1	9,685	251	2.6
Arden Group	22.3	def	def	18.4	-4.0	-2.3	NM	P-D	312	-2	def
Giant Food	22.1	11.3	9.2	27.2	6.8	3.7	14.4	-38.2	3,507	70	2.0
Winn-Dixie Stores	21.5	24.7	23.1	8.7	3.5	2.7	15.6	29.9	10,396	223	2.2
Riser Foods	19.7*	19.4	11.3	55.6	-3.3†	-4.2	NM	-17.5	979	8	0.8
Hannaford Bros	19.1	15.4	11.2	38.4	17.6	4.9	16.8	10.6	2,032	47	2.3
Bruno's	17.1	10.7	8.3	26.9	15.9	2.0	9.0	-32.9	2,692	43	1.6
Smith's Food & Drug	16.8	11.0	8.1	46.4	21.4	18.6	22.0	7.4	2,556	52	2.0
Weis Markets	15.6	12.0	11.7	0.0	3.5	0.4	5.0	-5.9	1,294	77	6.0
Marsh Supermarkets	14.8	10.4	6.7	51.5	7.1	1.3	10.3	-26.5	1,089	9	0.9
American Stores	14.1	11.2	7.8	56.6	10.4	-8.9	12.2	-36.4	19,418	171	0.9
Ruddick	13.7	13.1	10.7	25.6	10.1	6.2	11.2	4.8	1,569	31	2.0
Vons Cos	13.0*	15.2	10.9	58.8	14.4	1.9	NM	5.0	5,476	73	1.3
Casey's General Store	12.7	13.3	9.1	36.5	13.5	-0.9	4.8	18.5	538	12	2.2
Schultz Sav-O Stores	12.5	8.5	7.0	30.9	4.1	0.7	NM	-6.0	484	3	0.6
Eagle Food Centers	12.1*	13.0	9.7	61.7	2.4	-4.0	NM	D-P	1,080	8	0.8
Stop & Shop Cos	12.0†	def	def	85.4	5.0	-16.7	NA	P-D	4,221	-148	def
Great A&P Tea	11.5	def	0.3	33.9	7.7	-4.6	NM	P-D	11,096	-39	def
Delchamps	11.4	7.0	6.3	21.3	3.9	3.3	NM	-37.4	971	8	0.9
Ingles Markets	10.6	5.1	5.8	50.6	12.9	0.6	NM	-37.1	1,051	7	0.7
Dairy Mart	10.4	9.6	7.8	60.3	6.0	-5.4	NM	0.0	545	4	0.7
Seaway Food Town	9.1	6.7	6.3	57.3	5.1	-2.9	-14.6	88.9	555	2	0.4
Village Super Market	5.5	1.0	3.2	44.4	4.3	4.2	-34.6	-73.4	715	0	0.1
Foodarama Supermkts	3.8	0.5	5.1	61.5	9.2	0.9	NM	D-P	701	0	0.0
Kroger	1.4	NE	22.1	242.6	4.4	1.7	NM	-43.1	21,572	73	0.3
Circle K	def	NE	def	360.4	6.2	-15.3	NM	D-D	2,901	-199	def
Natl Convenience	def	NE	def	196.6	3.5	-11.7	NM	D-D	926	-174	def
Penn Traffic	def*	def	7.7	95.9	46.3	0.3	NM	D-D	2,728	0	def
Safeway	NE	14.2	6.8	85.4	-5.7	-0.9	NM	-76.2	14,964	40	0.3
Buttrey Food & Drug	NA	18.0	13.8	40.0	NA	-6.2	NA	NA	468	9	1.9
Southland	NA	NE	def	214.9	NM	-7.2	NM	D-D	7,166	-136	def
Medians	12.6	10.5	7.8	48.5	6.2	0.5	NM	-26.5	1,801	9	0.8

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95. Sources: Forbes; Value Line Data Base Service via Lotus One Source.

Making up for lost time

"Thank you for calling Winn-Dixie, the low-price leader," greets the telephone operator at the Jacksonville, Fla. headquarters of the 1,200-store Winn-Dixie chain.

Winn-Dixie works hard these days to make good that boast. Five years ago Winn-Dixie had old, tired stores. A complacent management failed to introduce the specialty departments that more aggressive rivals were rolling out. Once a profit leader in the supermarket industry, Winn-Dixie showed signs of slipping. Impatient directors installed as

president James Kufeldt, a 26-year Winn-Dixie veteran who began as a produce worker. He replaced A. Dano Davis, a member of the family that controls the company. Davis was kicked upstairs and two other members of the Davis family—which still owns 38% of the stock—also got the boot.

Kufeldt, now 54, went right to work. He eliminated an entire layer of middle management and increased the ratio of less expensive part-time workers to full-time workers. A computerized central buying system was installed to keep better track of inventories and extract lower prices from suppliers. And forward buying—

where a future supply of items is purchased to lock in favorable prices—was substantially increased.

Winn-Dixie's average store size has increased nearly 20% in the last six years. Unprofitable stores are being closed while viable older ones are undergoing 10,000-square-foot expansions. Its 16 warehouses and 27 manufacturing plants are also being enlarged and upgraded as part of a \$1 billion capital program.

Opening this month: a 50,000-square-foot prototype store in Orlando that will feature higher-margin specialty departments offering items such as flowers, seafood, pharmaceuticals and on-site film processing.

Winn-Dixie is financing these somewhat belated improvements out of cash flow. Except for long-term capital leases, the company has maintained a virtually debt-free balance sheet since it was founded in 1925. Free of debt service burdens, it can slash prices when challenged by other supermarket chains, warehouse clubs or deep-discount pharmacy chains.

Despite competitive prices, Winn-Dixie sports a 2.2% net profit margin, one of the industry's highest. The average supermarket chain must be content with 1% margins. That's about where Winn-Dixie was only five years ago. —T.G. ■



James Kufeldt, president of Winn-Dixie Stores

Transforming a sleepy grocer into an aggressive chain.

pened? For starters, customers were trading down to less expensive items and were also passing up many of the discretionary items carried by supermarkets. Alternative formats like warehouse clubs, such as Sam's and Price Club—which sell food and other merchandise in large volumes at low prices—continued to encroach on the \$380 billion (in sales) retail food market. According to the Food Marketing Institute, over the last year supermarkets have lost \$23 billion in grocery sales to warehouse clubs, mass merchants and deep discount drugstores.

What's next? Supermarkets are fighting back—demanding the same favorable pricing from their suppliers as the warehouse operators. Several supermarkets, like Smith's Food & Drug and Hannaford Brothers, now dedicate around 5% of footage space to bulk-pack or multipack merchandise. These items have sold well at these stores, but they have returned lower margins. These larger packages often cannibalize sales of higher-margin standard-size packages of the same products. Nevertheless, margins should bounce back some as supermarkets learn the

business.

To rope in the value-conscious consumer, supermarkets continue to emphasize private-label items, whose prices can be up to 75% lower on nonfood items and 30% lower on food items.⁵ But profit margins are typically higher. Safeway and Kroger are particularly strong in private labels; about a quarter of their sales are store brands.

Food wholesalers also had a hard time in 1992. Food prices rose less than 1% at both the wholesale and retail level. This squeezed margins and contributed to the industry's consolidation: Minneapolis-based Supervalu (formerly Super Valu Stores) acquired Wetterau for \$1.1 billion. This turned Supervalu—an outfit that has done well servicing mostly small, independent grocers—into the nation's largest food wholesaler. Only about 13% of Supervalu's sales go to the big chains. In contrast, Super Food Services relied on the larger chains for about 35% of its business. Last year Super Food's largest customer, Albertson's, dropped it as a distributor and is moving toward setting up its own distribution network. ■

Food distributors	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Food wholesalers											
Richfood Holding	21.0†	23.7	21.5	36.7	NM	4.9	NM	41.9	1,072	16	1.5
Supervalu	19.6	19.9	14.6	31.1	5.8	5.6	16.1	33.6	10,854	210	1.9
Sysco	19.4	17.7	12.7	29.7	20.1	10.0	22.0	10.5	9,131	175	1.9
Nash Finch	11.3	10.6	9.3	28.8	7.9	4.0	NM	5.5	2,431	19	0.8
Fleming Cos	10.7	7.1	6.8	47.8	11.2	1.1	4.9	-41.0	12,892	72	0.6
Rykoff-Sexton	7.9	4.9	4.9	41.0	7.5	3.9	NM	-31.6	1,523	9	0.6
Super Food Services	7.8	def	def	32.9	1.8	-13.8	NM	P-D	1,573	-5	def
Medians	11.3	10.6	9.3	32.9	7.5	4.0	NM	5.5	2,431	19	0.8
Restaurant chains											
PepsiCo	26.1	23.5	11.9	51.3	16.0	11.7	19.1	22.2	21,357	1,321	6.2
McDonald's	21.1	18.2	11.8	35.3	10.3	5.5	14.0	10.0	7,035	931	13.2
Cracker Barrel OCS	19.0	17.7	15.6	16.1	32.6	33.8	38.3	37.8	432	37	8.5
Brinker Intl	17.9	15.2	15.5	1.5	24.2	21.6	29.2	26.3	546	38	7.0
Morrison Restaurants	16.5	17.4	14.5	13.6	11.7	6.3	7.8	21.9	1,045	34	3.3
Carl Karcher	16.0	14.4	10.7	49.4	11.4	-4.3	NM	44.0	512	13	2.6
Bob Evans Farms	15.7	15.8	15.5	0.0	10.4	14.7	10.1	17.7	585	41	7.0
Sizzler Intl	11.3	2.0	1.8	3.8	13.2	6.8	9.9	-76.5	539	6	1.1
Wendy's Intl	8.3	12.2	10.2	31.2	-1.1	15.4	71.9*	22.4	1,190	61	5.1
Vicorp Restaurants	6.7	9.2	8.6	21.5	3.0	0.6	NM	-30.1	419	11	2.6
Shoney's	3.2	NE	25.7	173.7	9.9	7.1	-9.8	25.6	1,042	48	4.6
Foodmaker	NA	NA	NA	68.4	17.6*	NA	NA	NA	1,204	11	0.9
TW Holdings	NA	def	5.4	89.7	13.1	1.5	NA	D-D	3,685	-41	def
Medians	16.0	14.8	11.8	31.2	11.7	7.0	10.1	22.0	1,042	37	4.6
Industry medians	12.8	11.0	9.1	39.2	7.9	1.7	-12.2	-3.0	1,409	15	1.0
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95. Sources: Forbes; Value Line Data Base Service via Lotus One Source.

A BUSINESS ISN'T THE FIRST THING WE EXPECT YOU TO OPEN.

Before you can even think of opening a business or a plant in Alabama, you might have to overcome some misperceptions about the state—images shaped by the media and myths about the South. If that's the case, the first thing we want you to open is your mind. Because only then will your eyes be open to all that Alabama has to offer.

Responding to the jokes about Alabama

being years behind, Ray

Rosewall says, "That's

absolutely not the

case. Mobile, especially, is very forward-thinking in attracting new business, very open to change." He adds,

"The city is much more of a melting pot of people than I expected."

Concerning the labor force, Ray says,

"They're very hard-working; you just don't find workers in the rest of the country who take so much pride in their accomplishments. As for professionals, we have found many bright engineers from the state's universities."

Tim and Pat Langan didn't really expect to move to

Alabama when they came here for Tim's interview with the Alabama Shakespeare Festival in Montgomery. "But we saw the best production of Chekhov ever, and made

up our minds to come here at intermission," Tim says. "We felt that working with a theater that draws an audience from all over the nation, even 64 foreign countries, would be an excellent opportunity. And I've never seen such strong community support for a theater." The

Langans, who have a six-year-old son and a 16-year-old daughter, say that the move from Rhode Island to Alabama has

"Given us our family back..."

the family unit is more

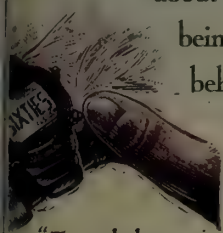
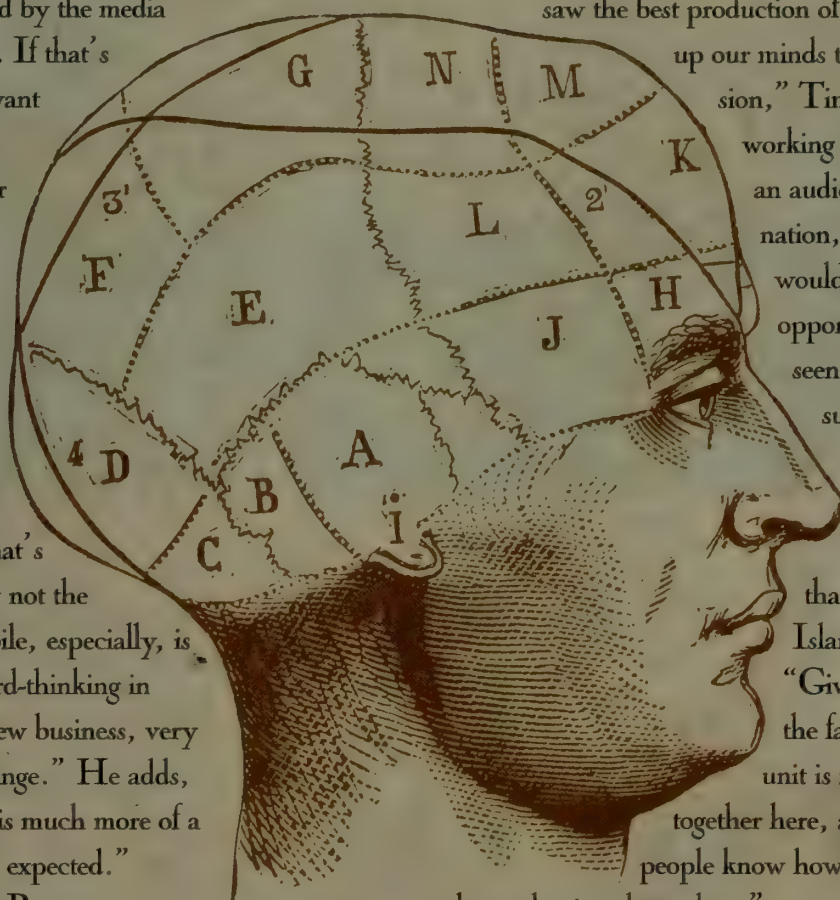
together here, and people know how to

relax and enjoy themselves."

When considering a location for a new plant or business, don't close your mind to Alabama. Because a closer look at us could broaden your mind. And your possibilities.

"We expected Shakespeare to be performed with a Southern accent!"

Tim Langan,
Managing Director
The Alabama Shakespeare
Festival, Montgomery



"Friends have asked us, 'When you get off the plane, do you set your watch back 20 years?'"

Ray Rosewall,
Executive Vice President,
QMS, Mobile



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For more information, contact the Economic Development Partnership of Alabama: P.O. Box 2641, Birmingham, Alabama 35291-0001; 205 250-2226



Food, drink & tobacco

As consumers' brand loyalties weaken, these companies can no longer afford to be fat and happy.

By Riva Atlas

Acquisition-hungry food companies continued to gobble up foreign businesses in 1992. Philip Morris won a \$1.5 billion bidding war with Hershey Foods for Norwegian chocolatier Freia Marabou. H.J. Heinz, Campbell Soup, Sara Lee and ConAgra all made acquisitions in Australia and New Zealand.

That's what helped the industry stay highly profitable despite the U.S. recession. The diversified food companies surveyed in this issue had a median 12-month return on equity of 15.4%. But while food companies weathered hard times better than most businesses, U.S. consumers have adopted some new buying habits, prompting industry concern. In the cigarette industry, generic or discount brands now account for over 30% of the market, compared

with 1% only ten years ago. Generics' market share could increase another ten percentage points before the end of the decade, says David Goldman, an Oppenheimer & Co. analyst. Another trend: Up to 8% of food products are bought from warehouse-style discounters.

"Fat-free" foods remain a growing niche, but their popularity has prompted the government to issue specific guidelines regulating usage of the term. The new labeling requirements take effect in 1994; companies are expected to start implementing them this year.

The trend toward healthy products has also had an impact on soft drink companies. While growth for the colas has been flat, "new age" drinks have gained ground. This group, which includes fruit-flavored drinks like Snap-

Food, drink & tobacco	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Food processors											
General Mills	48.6	36.2	21.2	31.6	9.4	7.5	18.1	5.4	7,881	513	6.5
Ralston Purina	38.1	30.7	15.4	56.6	6.3	3.4	2.5	0.9	7,585	380	5.0
Thorn Apple Valley	34.9	36.6	27.8	16.9	6.2	-10.8	NM	8.1	723	20	2.8
Kellogg	32.8	32.0	28.1	0.6	11.3	8.9	12.1	16.2	6,215	687	11.1
Wm Wrigley Jr	32.4	31.6	31.1	0.0	11.0	11.2	21.0	16.9	1,259	147	11.7
Smithfield Foods	32.3	12.9	10.3	32.2	NM	-2.6	22.6	-51.6	1,043	15	1.5
Gerber Products	27.9	26.9	22.1	17.2	7.0	8.1	45.9	7.9	1,308	127	9.7
HJ Heinz	27.3	21.8	17.7	6.3	7.4	0.9	14.0	-21.3	6,646	528	7.9
CPC International	26.3	23.8	16.7	25.4	6.2	3.1	12.5	17.9	6,354	429	6.8
McCormick & Co	24.4	22.4	15.6	29.5	7.6	3.7	33.1	18.4	1,449	90	6.2
Quaker Oats	23.5*	23.8	14.5	23.4	7.4	3.5	10.9	12.0	5,715	268	4.7
Tyson Foods	23.3	19.4	9.9	33.8	21.3	6.3	17.3	10.5	4,169	161	3.9
Savannah Foods	22.8	12.0	9.4	28.5	13.2	-7.8	36.5	-33.5	1,127	27	2.4
Sara Lee	22.2	18.8	12.6	14.7	7.0	10.5	19.2	-9.6	13,719	640	4.7
ConAgra	20.8	14.9	11.8	44.4	21.3	5.2	14.2	8.1	21,410	376	1.8
Michael Foods	20.2	3.5	3.9	38.0	27.9	-1.6	15.6	-72.6	445	6	1.4
Valhi	20.1	def	3.9	45.1	8.2	500.0+	NM	P-D	799	-4	def
Lance	19.7	16.5	14.9	0.0	4.6	2.6	4.1	0.8	458	40	8.7
Universal Foods	19.4	14.1	11.0	33.4	4.5	5.9	14.7	-28.0	883	42	4.7
Hershey Foods	19.2	17.0	13.5	14.6	5.5	11.3	10.8	23.7	3,114	235	7.6
Dean Foods	18.7	14.2	11.4	24.3	10.5	6.0	10.7	-17.3	2,301	60	2.6
JM Smucker	18.6	16.5	15.7	1.6	11.6	5.3	13.2	8.2	489	35	7.1
Unilever NV	17.8	15.6	NA	16.8	11.8	-1.6	12.6	7.6	43,131	NA	NA
Lancaster Colony	17.2	22.7	18.0	18.8	4.7	14.2	11.2	54.2	576	35	6.2
Pioneer Hi-Bred Intl	17.2	22.4	19.9	7.3	8.6	12.2	21.8	46.5	1,262	152	12.1
Chiquita Brands Intl	16.9	def	def	54.7	7.6	1.1	18.0	P-D	4,574	-81	def
Campbell Soup	16.7	27.2	19.2	22.9	7.3	4.1	NM	22.6	6,412	518	8.1

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. P-Z: Profit to zero. Z-D: Zero to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.
Sources: Forbes; Value Line Data Base Service via Lotus One Source.

Still smoking

Claude Owen,
chairman of
Dibrell Brothers

**Thanks to a
timely move
abroad, sales of
tobacco leaf
are piling up.**



Fewer Americans are smoking, and of those who still do, many are buying cheaper, generic cigarettes. Also, the U.S. exports only 20% of the world's leaf tobacco, down from 60% 30 years ago.

Surprisingly, that's good news for Danville, Va.-based Dibrell Brothers (\$1.1 billion revenues), the world's second-largest tobacco processor in terms of volume. Dibrell buys raw tobacco from farmers all over the world and processes it for resale to cigarette makers. It doesn't make any retail tobacco products itself and is thus neatly positioned to focus its marketing wherever cigarette demand is.

Right now that means overseas. A higher proportion of Dibrell's tobacco business is done overseas than any of its competi-

tors'. In 1992 over 65% of its \$700 million in tobacco sales came from products processed and grown in about 15 foreign nations. "Our international business today is larger than the whole company was in 1989," says Claude Owen, Dibrell's chairman.

All tobacco-related companies have shifted their attention away from the U.S. In 1987—the only year Dibrell showed a loss—it took a charge against earnings as it closed three of its five U.S. facilities. But in the mid-1980s it also bought foreign units from cigarette makers looking to quit the processing business. In 1985 a Dibrell and B.A.T Industries joint venture bought out Liggett & Myers' Brazilian operations. Dibrell also snatched up RJR Nabisco's Brazil-

ian operations in 1990.

As a result, Dibrell has a dominant position in the Brazilian tobacco leaf market, currently the world's second-largest source of export, after the U.S. Last year over 35% of its tobacco revenues came from selling Brazilian-processed tobacco.

It's also cheaper for Dibrell to buy tobacco abroad. It pays \$1.50 per kilo for Brazilian tobacco versus \$3.80 in the U.S., says analyst Barry Ziegler of A.G. Edwards & Sons.

Dibrell left some foreign markets when it realized that smokers worldwide preferred the lighter "American blend" over cigarettes with heavier tar content. In 1988 Dibrell left markets like the Dominican Republic and Indonesia that produce higher-tar tobacco.

That decision has served Dibrell well. American blend cigarettes have become popular with Eastern Europeans who previously were stuck with high-tar brands. And the European Community is phasing in regulations beginning this month limiting the tar content of cigarettes to 15 milligrams.

Dibrell continues its search for new and cheaper tobacco markets. Next stop: China, where tobacco leaf costs little more than half what it does in Brazil.

But what if tobacco slows worldwide? Owen can always sell flowers. Dibrell began diversifying in 1987 by acquiring Florimex, an importer/exporter of fresh cut flowers. Flower sales for the company have doubled in the last four years, to over \$360 million. —R.A. ■

ple, now accounts for about \$1 billion of the total soft drink market, according to Thomas Pirko, president of Bevmark, Inc., a consulting firm. The popularity of these products has cut diet colas' growth in half, to 3% a year. Coke and Pepsi are fighting back. Each company has established a joint venture to roll out new iced tea products; Pepsi has high hopes for its new clear Crystal Pepsi drink. With the cola giants' marketing muscle, they

should be able to regain some market share.

Tobacco companies got some relief on the legal front. Tobacco stocks rallied in June, when the Supreme Court finally ruled on the Cipollone v. Liggett Group suit. The court's decision appears to uphold consumers' rights to sue based on fraud or intentional misrepresentation but held that labels on packages would preempt suits based on insufficient warning.

Food, drink & tobacco	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share				
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company											
Geo A Hormel	16.4	15.4	14.3	1.2	6.8	-4.1	17.7	3.5	2,733	90	3.3
Pilgrim's Pride	15.3	def	def	47.7	17.3	5.4	NM	P-D	813	-14	def
Dole	14.9	11.2	6.5	39.1	14.1	3.8	22.4	-6.2	3,312	117	3.5
Flowers Industries	14.8	15.8	11.8	27.7	2.6	8.4	NM	43.5	898	34	3.8
Borden	14.3	def	def	44.7	7.0	-1.7	6.9	P-D	7,164	-196	def
Archer Daniels	14.1	12.0	9.5	23.5	8.9	7.2	12.8	4.3	9,312	504	5.4
Seaboard	12.5	11.2	8.9	22.3	17.5	33.7	19.6	45.3	1,006	27	2.7
Imperial Holly	11.8	def	def	30.0	26.7	-9.1	NM	P-D	646	-11	def
WLR Foods	11.2	7.0	6.1	24.5	7.5	7.8	NM	-6.5	531	8	1.4
Intl Multifoods	10.9	12.5	9.8	27.0	9.9	2.8	NM	7.0	2,277	40	1.7
Curtice Burns Foods	8.1	6.2	5.4	65.7	8.1	-3.1	-19.2	127.3	897	6	0.7
Hudson Foods	7.7	1.6	3.0	35.1	12.9	5.7	-22.0	-74.1	809	2	0.3
IBP	5.8	11.8	8.5	47.6	8.8	4.1	NM	500.0+	10,875	57	0.5
American Maize	5.4	9.0	7.9	31.9	NM	5.5	NM	103.7	549	14	2.6
ERLY Industries	def	def	def	89.9	22.1	1.4	NM	D-D	352	-7	def
Interstate Bakeries	NA	def	11.3	47.2	8.7	4.0	NM	D-P	1,156	33	2.9
Pet	NA	20.1	11.9	51.4	6.5	-4.6	NA	NA	1,776	105	5.9
Medians	18.7	15.2	11.4	28.1	8.2	4.1	12.1	7.0	1,379	42	3.5
Beverages											
Coca-Cola	43.4	42.3	33.9	17.1	10.4	13.0	17.3	21.0	12,709	1,863	14.7
PepsiCo	26.1	23.5	11.9	51.3	16.0	11.7	19.1	22.2	21,357	1,321	6.2
Anheuser-Busch Cos	23.3	20.6	13.1	24.2	7.8	2.9	13.7	10.3	11,332	1,018	9.0
Brown-Forman	22.7	21.0	16.7	11.9	2.4	12.4	12.3	5.0	1,339	152	11.4
Seagram	13.4	11.0	8.7	28.3	18.0	2.7	12.3	0.4	5,245	709	13.5
Adolph Coors	2.9	1.9	1.4	14.7	8.9	3.5	-17.4	-29.5	1,952	21	1.1
Coca-Cola Enterprises	1.7	def	0.9	67.7	12.8	18.8	NM	P-D	4,796	-117	def
Coca-Cola Bottling	def	0.5	3.4	70.3	4.7	34.4	NM	D-P	607	5	0.8
Whitman	NA	12.3	9.4	55.3	10.3	2.5	37.4	-23.2	2,421	57	2.4
Medians	18.0	12.3	9.4	28.3	10.3	11.7	12.3	5.0	4,796	152	6.2
Tobacco											
UST Inc	44.8	58.7	56.0	0.0	11.0	14.0	20.6	19.6	979	299	30.5
Philip Morris Cos	34.8	36.3	19.6	52.3	20.8	12.8	23.7	13.3	49,235	4,510	9.2
Dibrell Brothers	25.2	30.2	13.6	58.9	26.3	5.4	24.1	40.5	1,118	33	3.0
American Brands	21.7	20.7	14.2	32.3	9.9	1.6	16.7	44.6	8,777	867	9.9
Hanson	18.2	12.8	8.8	40.8	13.3	6.3	16.1	-1.2	14,616	1,493	10.2
Std Commercial	8.3	17.7	11.5	33.8	12.7	9.0	NM	57.1	1,226	24	2.0
Culbro	3.6	4.7	5.5	50.8	2.7	4.5	-41.6	D-P	1,035	8	0.6
Brooke Group	def	NE	def	500.0+	41.5	-13.0	NM	D-D	923	-159	def
RJR Nabisco	NA	10.5	7.2	51.4	5.3	6.3	NA	160.9	15,623	766	4.9
Universal	NA	26.6	17.9	36.4	11.8	5.9	17.7	9.7	3,120	74	2.4
Medians	20.0	19.2	12.5	45.8	12.2	6.1	16.7	30.0	2,173	187	3.9
Industry medians	18.7	15.4	11.4	31.6	8.9	5.3	12.5	8.0	1,952	59	3.7
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. P-Z: Profit to zero. Z-D: Zero to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

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LET
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Forest products & packaging

In 1992 the lumber business was great while the paper business was terrible. Expect more of the same this year.

By Linda Killian

Lumber companies had a booming year in 1992 and should do even better this year. Driving up wood prices by an average 20% last year were a modest improvement in housing, the rebuilding effort after Hurricane Andrew, and tighter federal restrictions on timber cutting.

About half of this country's timber for wood products comes from the Pacific Northwest, and half of that supply is on federal lands, which became largely unavailable for

logging in the past year because of the spotted owl controversy. Under the Clinton Administration even tighter restrictions are likely. Companies like Willamette Industries, Weyerhaeuser and Louisiana-Pacific that have their own ample timber supplies will benefit from the shortage. James River and many other smaller outfits that depend on federal timber will be hurt.

Meanwhile, the paper industry continued in the dol-

Forest products & packaging	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share				
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company											
Paper & lumber											
PH Glatfelter	23.2	14.0	11.9	0.0	14.3	-5.5	15.9	-21.1	552	63	11.4
Federal Paper Board	19.6	7.9	5.6	45.1	9.2	-3.0	14.1	-30.5	1,417	72	5.1
Consolidated Papers	17.0	6.5	4.7	17.8	6.6	-2.9	NM	-37.8	876	62	7.1
Willamette Inds	15.5	8.1	6.4	38.1	10.6	20.7	NM	88.1	2,319	84	3.6
Union Camp	13.3	2.5	2.9	37.1	7.5	4.4	NM	-69.7	3,066	48	1.6
Albany International	12.8	2.5	3.1	44.9	10.8	-0.5	-15.0	-14.3	565	6	1.1
Westvaco	12.8	8.9	6.2	29.9	5.8	-0.8	6.0	8.0	2,327	151	6.5
Potlatch	12.5	9.2	5.9	34.3	5.9	6.8	NM	89.5	1,307	85	6.5
International Paper	12.2	6.3	4.9	29.0	18.4	5.2	6.8	0.0	13,415	384	2.9
Pope & Talbot	12.0	def	def	35.8	10.3	0.1	NM	P-D	516	-14	def
Georgia-Pacific	11.8	def	2.9	54.7	10.7	-0.5	NM	P-D	11,729	-99	def
Bowater	11.1	def	def	35.3	6.1	8.0	NM	P-D	1,421	-70	def
Chesapeake	10.2	5.6	5.1	45.1	7.3	5.2	NM	56.4	879	19	2.1
Mead	9.6	1.9	2.8	42.4	6.4	0.9	NM	D-P	4,663	29	0.6
Louisiana-Pacific	9.6	11.0	8.7	18.3	4.9	23.9	NM	233.8	2,061	145	7.0
Champion Intl	7.2	1.0	2.2	40.4	2.1	1.7	NM	18.8	4,904	63	1.3
Weyerhaeuser	6.4	0.8	2.3	50.8	2.9	4.1	NM	-86.9	9,011	30	0.3
Boise Cascade	5.8	def	def	45.8	1.7	-5.7	NM	D-D	3,774	-139	def
Medians	12.1	4.0	3.9	37.6	7.0	1.3	NM	-17.7	2,190	55	1.9
Packaging											
Bemis	18.0	17.6	13.2	24.6	5.8	1.4	17.9	16.3	1,170	59	5.0
Sonoco Products	18.0	18.6	13.7	26.2	10.8	7.2	6.9	7.6	1,800	105	5.8
Longview Fibre	15.9	7.8	5.6	43.6	5.9	3.2	-9.9	26.7	676	30	4.4
Temple-Inland	15.7	9.4	6.3	35.7	12.0	6.9	15.4	-11.5	2,655	145	5.5
Stone Container	14.4	def	1.8	69.4	22.0	1.4	NM	D-D	5,547	-132	def
Crown Cork & Seal	13.9	13.9	9.7	22.5	18.9	-0.7	11.2	21.7	3,753	151	4.0
Ball Corp	10.8	10.1	7.9	28.8	14.2	7.8	NM	2.7	2,190	67	3.0
St Joe Paper	6.9	3.2	3.4	3.3	2.1	4.1	-19.7	13.0	598	27	4.5
Sealed Air	4.4	NE	22.5	129.6	14.6	5.3	-11.7	28.4	449	20	4.5
Gaylord Container	def	NE	def	115.2	8.3	-0.1	NM	D-D	723	-133	def
Owens-Illinois	NA	37.2	12.5	83.1	7.9	1.3	NM	D-P	3,657	109	3.0
Medians	14.2	9.4	7.9	35.7	10.8	3.2	-11.7	13.0	1,800	59	4.4
Industry medians	12.3	6.3	5.1	37.1	7.9	1.7	NM	2.7	2,061	59	3.0
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95. Sources: Forbes; Value Line Data Base Service via Lotus One Source.

drums, owing to overcapacity and a recession-tempered demand from businesses. The continued proliferation of electronic mail and other paper substitutes may be having an impact as well.

Outfits like Boise Cascade and Georgia-Pacific, which have a big exposure to business paper, suffered. Newsprint producers Bowater and Stone Container were hurt by the slump in newspaper advertising.

Papermakers are also under the gun from new environmental regulations—ranging from rules on factory effluents and emissions to the amount of wastepaper they must recycle. Meanwhile, mounting pressure for manufac-

turers to use less packaging for consumer goods could cut into demand for paper products.

How about packaging? Demand for plastic and aluminum cans continued to grow, thanks to their relatively low cost and greater ease in handling and shipping. Glass containers have been in a downward spiral for the past decade, a trend that won't change drastically this year.

Crown Cork & Seal continued to gobble up rival packaging firms. Last year it acquired \$500 million (sales) Constar International, which just introduced a 12-ounce plastic soft drink container. If this bottle catches on, glass containers stand to lose even more market share. ■

No missed meals

On the wall in Harry Merlo's office hangs an Italian saying that used to grace the wall of his mother's rooming house in northern California—"Chi non lavora non deve mangiare"—If you don't work, you don't eat.

Merlo, the chairman of Louisiana-Pacific, hasn't had to worry about missing a meal recently. The company just had its best third quarter ever. Estimated sales and earnings for 1992: \$2 billion and \$180 million, respectively, with a return on capital of 8.7%.

Merlo, 67, who began working in a northern California lumberyard at 15, believes in keeping costs down and having a small, focused management staff. The company has only two vice presidents and can fit its entire corporate staff of fewer than 40 employees on one floor of a Portland office tower.

Nor has Merlo forgotten what it's like to work in a lumber mill. To keep in touch with what's on the minds of his 12,500 employees, Merlo makes frequent visits to his 118 plants. "They all call me Harry," he says. "There's no Mr. Merlo."

Under Merlo, L-P has a commanding 40% market share in building prod-

ucts it developed made from wood chips and resin. The chips come from plentiful, younger trees that most companies consider waste timber. By avoiding the cutting of older timber, Merlo has been able to duck the barbs of environmentalists.

L-P's Inner-Seal brand is cheaper to produce than plywood but is used in many of the same applications. It accounts for half of L-P's earnings. So strong is demand that the company has two new plants scheduled to open early this year.

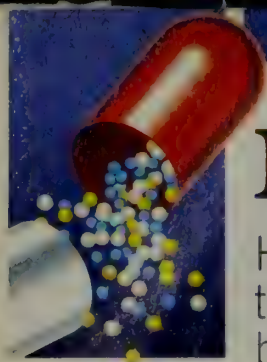
New products? L-P has spent \$50 million developing FiberBond, a new competitor to wallboard, the construction material with gypsum in the middle and paper on each side. FiberBond mixes gypsum and recycled newspaper together. Merlo says it's more versatile and stronger than wallboard for about the same price.

On the environmental front, L-P has been cited by federal regulators for various environmental violations and is facing several federal investigations over emissions problems at plants in Colorado and Alaska. Merlo says environmental compliance is L-P's biggest challenge and will take several years to achieve. —L.K. ■

Robbie McChesney



Louisiana-Pacific Chairman Harry Merlo with Inner-Seal panels
Using "noncontroversial timber" to make a profitable product.



Health

Health care companies are scrambling to control the costs of their products and services—before Washington does it for them.

By Reed Abelson

The specter of health care reform gave investors the chills in 1992, and health stocks swooned. By November hospital, medical device and drug stocks had fallen roughly 20% from their levels at the beginning of the year. Biotechnology stocks dropped by nearly a third. Only the health maintenance organization stocks beat the market; the soothsayers thought they might benefit from federal action on costs. No one knows exactly what Clinton and Congress plan to do, despite the heated campaign rhetoric. But this much seems clear: Politicians smell votes in seeming to be doing something about health care costs even if their action makes matters worse.

To keep the bureaucrats at bay, seven pharmaceutical houses have already promised to keep future price hikes in line with inflation. Drug prices rose only 6% during the 12-month period ended in October, the lowest jump in 15

years. Even with this price restraint, Ronald Nordmann, an analyst with PaineWebber, thinks that firms like Merck, Pfizer, Bristol-Myers Squibb and Schering-Plough will continue to prosper. These firms have significant international sales, strong unit growth and strong research and development pipelines.

Drug companies are already busy restructuring. Eli Lilly, for example, reported its first loss since going public more than 40 years ago, taking a \$520 million pretax charge last fall. Another growing trend is the pooling of resources by drug companies. Marion Merrell Dow and SmithKline Beecham, for instance, teamed up on an over-the-counter drug venture.

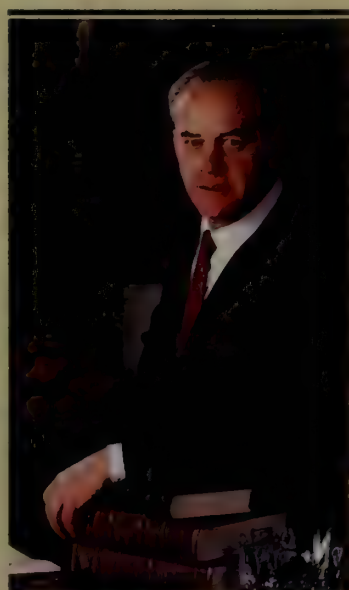
One plus for drugmakers last year: the passage of legislation allowing the Food & Drug Administration to charge user fees so that the agency can afford to hire 600

Learning to roll with the punches

Back in the early 1980s Schering-Plough Corp. could have easily found itself knocked out cold. When Robert Luciano, its chairman and chief executive, took over in 1982, the company had been caught off guard after losing patent protection on one of its key drugs, the \$250 million antibiotic Garamycin.

Under the direction of Luciano, the Madison, N.J. firm has become a much trimmer, more focused company. Over the last ten years Luciano cut the payroll by more than 20%. Each of its 20,000 employees now produces almost three times as much revenue as a decade ago. And the company has gotten rid of some of its non-core businesses like Maybelline cosmetics.

Schering has worked



Chairman Robert Luciano
He mended Schering-Plough.

hard to overcome its weakness in research. It was among the first to see the potential of biotechnology. Now Schering has a knockout drug: Intron A, a genetically engineered treatment for chronic hepatitis B and other diseases. Already approved

in 62 countries, it received the okay for treatment of hepatitis B from the FDA last summer. Neil Sweig, a pharmaceutical analyst for Capital Institutional Services, thinks revenues from Intron A will top \$450 million in 1992, making it Schering's bestselling product. Sales could double by 1996.

The company got its hands on Intron A through an equity position in Biogen, a biotechnology company. It initially licensed Proventil, its \$400 million anti-asthma drug, from Glaxo. And Schering recently teamed with Carter-Wallace to market a promising new epilepsy treatment overseas.

Luciano has been quick to see the importance of becoming an international player. Six years ago he targeted seven big foreign markets, then accounting for about half the company's internation-

al sales. Today those markets make up almost two-thirds of Schering's nearly \$2 billion in overseas revenue. Foreign sales are now driving Schering's growth.

The need to wrestle every ounce of profit from its products has made Schering the most skilled drug company in switching prescription drugs to the over-the-counter market. It has completed more than double the number of switches than has any rival. Luciano has also invested heavily to improve Schering's own research and development pipeline. The company spent some \$3 billion on R&D over the last ten years.

Luciano must be doing something right: In ten years Schering's net margins have jumped from 11% to 18%. In the tough environment ahead, Schering can take—and give—a pounding. —R.A. ■

Health	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Drugs											
American Home Prods	61.1	45.8	41.7	8.8	4.7	11.7	10.7†	13.0	7,680	1,503	19.6
Merck	52.6	48.7	39.0	8.8	15.4	11.8	27.4	17.9	9,375	2,397	25.6
Syntex	50.8	47.1	37.5	15.3	12.9	14.8	15.0	11.1	2,085	472	22.7
Marion Merrell Dow	39.4	39.9	37.8	4.7	39.0	21.7	19.4	20.5	3,296	678	20.6
Abbott Laboratories	36.7	37.7	32.9	2.8	12.3	14.0	17.0	15.4	7,642	1,205	15.8
Glaxo Holdings	33.3	35.3	31.8	3.2	20.9	43.0	17.9	39.6	7,782	1,915	24.6
Warner-Lambert	30.5	17.8	13.4	23.4	10.2	9.9	NM	-61.6	5,460	209	3.8
Bristol-Myers Squibb	30.2	37.0	35.3	1.4	10.9	6.8	19.0	8.7	11,703	2,135	18.3
Schering-Plough	29.1	52.0	30.9	10.0	8.1	10.6	22.5	20.5	3,927	701	17.9
Eli Lilly	28.9	15.7	14.4	3.9	9.7	8.7	18.5	-35.4	6,085	828	13.6
Rhone-Poulenc Rorer	22.4	37.0	18.2	34.7	37.4	5.5	10.1	-10.4	4,028	378	9.4
Upjohn	21.1	24.3	19.7	9.9	7.8	8.4	13.7	6.6	3,589	548	15.3
Pfizer	16.3	15.5	14.2	9.8	9.1	3.6	2.2	-8.9	7,133	797	11.2
Bergen Brunswig	15.5	14.3	10.0	35.3	9.3	4.3	18.7	7.7	5,048	61	1.2
Cardinal Distribution	14.9	13.7	9.5	44.3	23.2	38.4	18.6	36.5	1,893	30	1.6
American Cyanamid	14.7	15.0	13.5	13.3	4.9	4.1	10.1	14.2	5,189	389	7.5
Bindley Western Inds	12.6	11.5	9.4	1.3	26.6	21.7	25.4	-11.1	2,778	13	0.5
Imcera Group	10.4	11.0	9.7	22.2	NM	6.0	38.6	26.4	1,738	130	7.5
McKesson	8.7	4.3	5.8	27.7	8.1	22.5	-15.9	-66.8	11,226	38	0.3
National Intergroup	def	2.1	5.4	16.4	-4.7	16.3	NM	50.0	4,016	14	0.3
ICN Pharmaceuticals	def	def	14.5	52.6	33.2	66.5	NM	D-D	601	0	0.1
Perrigo	NA	28.6	20.1	22.5	23.9	53.3	NM	67.9	466	33	7.0
Medians	22.4	21.0	16.3	11.7	10.5	11.8	16.0	12.1	4,538	431	10.3
Health care services											
US Healthcare	37.4	52.0	52.9	0.0	27.3	29.5	NM	32.4	2,017	184	9.1
PacifiCare Health	35.0	40.6	44.1	8.5	41.4	35.7	66.1	61.8	1,686	44	2.6
United HealthCare	31.2	30.1	31.4	0.6	24.3	74.2	NM	45.2	1,290	103	8.0
National Health Labs	28.2	36.8	35.7	23.6	23.9	20.7	33.6	24.2	695	118	17.0
FHP International	27.1	11.1	10.3	6.9	34.9	21.9	30.1	-19.0	1,666	33	2.0
Manor Care	17.2	26.1	12.6	47.3	13.5	10.7	40.4†	108.9	936	72	7.7
Medical Care America	15.9†	10.8	11.9	29.0	40.7*	NA	NA	NA	613	51	8.3
Humana	15.5	3.5	4.1	25.0	10.7	-31.1	-10.1	-80.1	4,043	71	1.8
National Medical	15.5	6.6	5.2	35.7	6.5	1.1	16.0	-62.6	3,939	112	2.8
Continental Medical	13.1	13.3	12.5	35.9	60.4	73.5	52.2	40.5	722	28	3.9
Universal Health	7.7	10.3	8.9	34.2	8.2	0.2	18.3	2.2	724	19	2.7
Summit Health	6.7	15.5	10.0	29.9	3.5	15.4	NM	69.2	468	14	3.1
American Medical	3.7†	19.3	14.1	62.8	-4.5	-12.1	NM	D-P	2,238	110	4.9
Lifetime	2.1	def	def	52.5	52.2	10.8	NM	P-D	858	-38	def
Beverly Enterprises	def	6.5	6.5	52.7	2.1	12.4	NM	48.5	2,518	39	1.6
Foundation Health	NE	32.2	33.5	1.4	46.1	17.3	NM	30.1	1,165	49	4.2
Columbia Hospital	NA	15.5	12.5	68.5	NA	56.0	NA	10.0	714	20	2.8
Health Care & Retire	NA	NA	8.3	38.4	8.5*	2.5	NA	NA	485	24	4.9
HealthTrust	NA	23.8	10.5	59.8	7.8*	11.8	NA	58.5	2,265	108	4.8
Hillhaven	NA	def	def	85.4	6.6	-1.9	NA	P-D	1,230	-70	def
OrNda HealthCorp	NA	def	def	72.5	NM	8.9	NA	P-D	509	-69	def
Medians	15.5	14.4	10.5	35.7	12.1	12.1	-10.1	30.1	1,165	44	3.1
Medical supplies											
Johnson & Johnson	29.0	28.7	23.8	17.8	12.0	10.8	29.2	15.7	13,398	1,627	12.1
US Surgical	26.3	34.4	22.8	37.1	30.6	48.1	36.2	59.6	1,118	130	11.6
Medtronic	22.4	22.0	21.4	0.9	17.8	18.0	14.6	22.4	1,242	171	13.8
VWR	20.7	22.7	13.6	52.8	11.5	9.9	NM	25.2	478	9	1.9
Hillbrand Inds	20.3	22.0	18.1	24.7	13.5	19.0	12.4	31.4	1,376	107	7.8
Pall	18.3	18.5	16.5	9.2	13.0	4.3	11.6	12.0	685	90	13.2
CR Bard	18.0	19.0	16.8	15.1	8.9	13.4	NM	32.3	960	69	7.2
Corning	16.3	16.9	13.3	24.6	12.1	15.4	12.1	13.2	3,699	342	9.2
Becton Dickinson	16.1	14.1	10.3	27.6	8.4	8.9	7.3	6.0	2,365	201	8.5
Bausch & Lomb	15.2	12.2	11.1	18.1	17.2	12.9	6.4	-29.3	1,668	101	6.1

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95. Sources: Forbes; Value Line Data Base Service via Lotus One Source.

additional workers to help speed up the approval of new drugs. This process now takes an average of 30 months—and every month that a drug is held up can cost a manufacturer about \$10 million in revenues.

Hospitals, which now account for 39% of the health care bill, continue to feel pressure. Their stocks are trading at a 30% discount to the market. Meanwhile, the companies that supply the hospitals are seeing more consolidation. In September, for example, Bergen Brunswig snatched Durr-Fillauer Medical from the jaws of Cardinal Distribution.

The health maintenance area continues to grow. Enrollment in HMOs has more than quadrupled since the early 1980s, to 39 million. Humana, which owns and operates

77 hospitals and has 1.7 million health plan members, intends to split its hospital and its HMO operations.

Many companies in the health sector have chosen to concentrate on their core business. Pfizer sold off its Coty cosmetics and fragrances business and spun off its specialty materials group, while Bristol-Myers Squibb is getting rid of its Drackett household products division.

The biotechnology industry is still losing money, but Jeffrey Casdin, an analyst with New York's Oppenheimer & Co., recommends Biogen, which is profitable and has a growing royalty stream from vaccines and alpha interferon. He also likes Chiron, which is close to making money with its diagnostics business and cancer treatment.

Health Company	Profitability				Growth				Sales latest 12 mos \$mil	Net income latest 12 mos \$mil	Profit margin latest 12 mos %
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share				
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Beckman Instruments	13.1	12.3	10.9	15.0	7.0	5.0	-1.7*	12.3	892	42	4.7
Angelica	13.0	9.3	7.9	28.6	9.0	3.0	7.1	-20.7	440	18	4.0
Millipore	12.7	10.9	9.9	17.4	10.6	6.2	NM	59.0	785	52	6.7
Owens & Minor	10.6	21.3	15.0	20.4	20.2	7.4	NM	83.9	1,147	21	1.8
Baxter International	9.3	15.0	11.2	33.4	9.7	-1.7	4.5	4.3	8,558	615	7.2
Perkin-Elmer	7.3	21.6	19.1	15.6	-7.4	9.0	NM	D-P	946	62	6.6
Allergan	2.2†	21.3	19.5	10.9	14.7	3.5	NA	D-P	887	102	11.4
Amsco International	NA	16.1	16.8	24.1	15.8†	24.4	28.5†	36.1	469	35	7.6
Medians	16.1	18.7	15.8	19.3	12.0	9.4	7.1	23.8	1,039	96	7.4
Industry medians	16.2	17.3	13.6	22.5	11.8	11.3	11.2	15.7	1,686	90	7.0
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0
Biotechnology											
Diagnostic Products	22.8	14.2	15.8	0.0	25.9	17.8	22.4	-17.9	102	17	16.5
Applied BioScience	17.1	10.8	12.0	8.0	36.4	51.6	25.6	-18.6	165	11	6.9
Life Technologies	13.0	15.3	15.1	0.0	10.5	16.0	19.4	-6.1	193	14	7.2
Amgen	10.9	47.9	50.2	14.1	89.5	76.6	NM	500.0+	995	284	28.5
Immucor	10.8	10.4	10.7	11.9	32.6	22.5	35.9	-3.4	29	3	11.0
Molecular Biosystems	4.1	def	def	5.1	37.9	-58.4	NM	P-D	5	-6	def
ICN Biomedicals	3.3	def	def	14.8	25.1	-25.9	NM	P-D	80	-22	def
IGI	1.6	0.0	1.3	31.8	5.1	9.6	-38.4	P-Z	24	0	def
Collagen	1.4	5.4	7.3	0.0	24.8	18.2	NM	D-P	71	3	3.7
Gamma Biologicals	1.3	0.6	0.7	5.2	-2.0	3.7	NM	-90.0	17	0	0.3
Genentech	0.4	1.5	1.6	13.4	28.6	-0.4	NM	-80.3	476	15	3.1
Applied Biosystems	0.2	def	def	5.7	13.8	13.5	NM	P-D	190	-14	def
Biogen	def	5.2	5.7	0.0	51.4	46.6	NM	150.0	114	14	15.6
ALZA	def	def	def	37.6	20.3	74.6	NM	P-D	213	-36	def
Synergen	def	def	def	1.6	19.4	197.9	NM	D-D	29	-8	def
Genzyme	def	def	def	27.1	51.6	102.6	NM	Z-D	184	-40	def
Cambridge Biotech	def	def	def	7.4	27.9	60.9	NM	D-D	42	-2	def
Genetics Institute	def	def	def	0.0	32.4	36.1	NM	D-D	92	-29	def
Scios Nova	def	def	def	0.2	NM	40.8	NM	D-D	13	-107	def
Repligen	def	def	def	0.0	11.4	171.3	NM	D-D	19	-13	def
Collaborative Research	def	def	def	2.6	-14.9	-42.9	NM	D-D	5	-2	def
Synbiotics	def	def	def	0.0	7.6	34.6	NM	D-D	1	-1	def
Immunex	def	def	def	10.6	47.9	55.8	NM	D-D	63	-7	def
Calgene	def	def	def	6.5	NM	-12.3	NM	D-D	23	-20	def
Centocor	def	def	def	73.7	13.1	109.7	NM	D-D	110	-149	def
Enzo Biochem	def	def	def	13.3	22.5	3.7	NM	D-D	21	-1	def
XOMA	def	def	def	1.2	46.9	-61.2	NM	D-D	7	-49	def
Chiron	def	def	def	17.9	57.8	103.5	NM	P-D	223	-486	def
Medians	def	def	def	6.1	24.9	28.6	NM	P-D	67	-4	def

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Sources: Forbes; Value Line Data Base Service via Lotus One Source.

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Insurance

Property insurers were battered by a string of calamities that made big Hollywood disaster movies look tame.

By Carolyn T. Geer

Hurricanes Andrew and Iniki, the Los Angeles riots and the Chicago flood were just a few of the 35 disasters that last year stunned the insurance industry with a record \$17.5 billion in property damage. When all the claims are in, property and casualty insurers could incur up to \$1.15 in losses for each premium dollar earned for the year.

So the long-awaited upturn in insurance prices may not be far off. Growth in investment income, which insurers use to offset underwriting losses, slowed to 0.9% in the first half of 1992, from an average 9.5% for the prior five years.

Rising reinsurance rates are another problem. Following last year's disasters, reinsurers have been raising the rates they charge to primary insurers for catastrophic coverage.

Finally, industry reserves—which are booked as liabilities based on claims estimates—are widely believed to be understated. Ernest Jacob, an analyst at Furman Selz, conservatively estimates that as of June 30, 1992 the industry was under-reserved by about \$25 billion, a shortage that would presumably be covered by dipping into the industry's \$160 billion in surplus capital.

Its agents do their homework

In an industry where some of the players are mired in bureaucracy, Cincinnati Financial Corp. is fast and lean.

Robert Morgan, 58, chief executive of the \$1.3 billion (revenues) insurance company, has a strong distaste for multilayered management that slows decision making. Even though Cincinnati Financial includes a holding company, three property and casualty companies, a life insurance company and a leasing company, "We're really one company whose only job is to sell and service insurance," Morgan says.

For one thing, the company avoids the expense of branch offices by having its 46 field marketing employees work from their homes. These people call on roughly 950 independent insurance agencies, scattered mostly throughout the Midwest and South.

The field personnel are authorized to quote prices



Robert Morgan in front of Cincinnati Financial's sole office building
His low-expense outfit rewards its loyal agents with high commissions.

on the spot. At most other insurers, agents must send applications to branch offices where they're priced and then sent back to the agents, often with additional correspondence in between. Cincinnati's system keeps paperwork and other overhead to a minimum. Its expenses, excluding commissions, are among the lowest in the business—about 10% of premium written. As a result, the company can afford to pay its agents above-average commissions, totaling 20% of every premium dollar—an incentive for

them to sell Cincinnati products.

This streamlined organization also allows the company to react quickly to market changes. "We can respond faster because we have fewer layers of management," notes Morgan.

Agents are strongly encouraged to own company stock. Those who do have done pretty well. Cincinnati's share price has increased nearly ten times in the last decade, to 61½. Cincinnati's losses ran higher than usual in 1992, mainly because of Hurricane Andrew and

some tornadoes that hit the Midwest. But the company's reserves are a healthy 2.3 times written premiums, and its 11.6% return on capital compares favorably with the 11.7% for the property and casualty industry.

The marketing staff is encouraged to call Morgan directly to discuss problems and concerns. It's unusual for him not to know the agents they work with. "We work hard at having a good relationship with agents," he says. "Everything else we accomplish is a by-product of that." —C.T.G. ■

Insurance	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos	latest 12 mos	latest 12 mos
Company	%	%	%	%	%	%	%	%	\$mil	\$mil	%
Diversified											
Leucadia National	23.8	39.7	31.1	32.3	38.5	92.3	53.2†	410.5	1,606	152	9.5
Loews	20.6	15.9	13.0	18.1	9.2	4.8	12.2	23.5	13,118	890	6.8
American Intl Group	18.1	14.0	11.1	35.3	13.1	7.7	12.6	3.3	18,026	1,584	8.8
Safeco	16.0	13.1	11.6	17.1	5.7	1.1	4.8	9.2	3,222	292	9.1
Old Republic Intl	15.3	18.4	16.5	11.9	4.0	15.9	10.0	37.5	1,558	174	11.2
CNA Financial	14.0	10.2	9.1	6.9	11.7	3.3	6.6	18.9	11,105	511	4.6
American Bankers	13.1	16.1	13.7	25.4	3.2	3.7	27.7†	2.0	796	40	5.0
Kemper	11.4	3.8	3.9	12.2	6.7	-13.7	5.9	-66.6	2,647	68	2.6
Lincoln National	9.3	10.8	10.4	13.2	10.6	-3.8	NM	15.3	8,711	302	3.5
Aetna Life & Cas	9.3	7.0	6.7	11.2	2.9	-6.9	-9.4	-6.5	17,821	519	2.9
Independent Insurance	9.2	1.6	1.8	7.5	5.8	-0.3	1.9	-80.8	571	6	1.0
Sears, Roebuck	8.9	2.3	3.6	55.3	5.7	2.5	NM	-70.9	58,238	347	0.6
Transamerica	8.9	4.7	5.7	69.4	4.7	-22.6	-18.4	-31.5	5,324	154	2.9
Cigna	8.8	6.8	6.8	12.6	7.5	-0.1	-7.8	-13.0	18,747	398	2.1
Unitrin	7.4*	9.0	9.0	0.0	2.5	7.9	NM	29.5	1,346	171	12.7
Travelers	3.6	def	def	17.6	-1.9	-7.7	NM	P-D	10,615	-180	def
Reliance Group	def*	15.3	9.2	76.8	6.0	9.6	NM	D-P	3,472	34	1.0
Horace Mann Educators	NA	22.6	18.1	32.0	NA	8.0	NA	101.7	701	64	9.1
Medians	9.3	10.5	9.1	17.3	5.8	2.9	1.9	6.2	4,398	173	4.0
Life & health											
Conseco	53.0	34.2	23.5	42.8	41.2	21.7	56.8	69.1	1,456	163	11.2
Torchmark	27.5	26.6	16.4	35.4	4.2	6.5	12.2	19.6	2,024	262	13.0
Aflac	17.4	19.0	18.0	7.1	16.6	21.5	5.6	25.0	3,812	176	4.6
Capital Holding	16.7	16.1	13.0	22.3	11.3	5.1	NM	13.1	2,856	299	10.5
Aon	16.2	14.5	12.8	16.9	9.5	9.4	4.5	6.6	3,178	268	8.4
UNUM	14.1	16.0	15.7	3.1	9.4	7.9	34.7*	16.4	2,586	236	9.1
Protective Life	11.6	16.4	15.5	8.0	8.9	24.2	9.8	25.9	600	42	7.1
Provident Life & Acc	11.4	8.2	7.9	12.8	5.8	4.1	NM	-20.2	2,931	111	3.8
Jefferson-Pilot	11.3	12.5	12.5	0.0	0.5	2.4	10.6	15.7	1,198	195	16.3
American General	11.2	11.9	9.3	49.6	6.1	3.8	2.0	17.6	4,531	518	11.4
Liberty Corp	10.6	13.6	9.9	37.8	3.8	7.7	3.5	55.3	378	41	10.8
NWNL	9.9	9.1	8.6	15.4	1.4	1.8	-2.9	9.0	1,361	56	4.1
Equitable of Iowa	9.7	16.4	14.0	14.2	12.3	-22.0	5.5	49.2	561	53	9.5
Uslico	8.2	2.4	3.1	22.8	3.3	-7.8	-15.6	-60.8	384	8	2.0
USLife	8.1	8.1	8.1	25.8	7.0	13.2	NM	13.2	1,509	80	5.3
American Natl Ins	7.7	8.1	8.1	0.0	7.5	7.5	NM	11.3	1,275	143	11.3
Pioneer Financial Svs	7.5	4.0	5.7	21.2	55.1	-4.1	NM	D-P	669	5	0.8
Broad	6.5	13.1	12.8	26.7	14.3	0.1	NM	27.0	805	59	7.3
Kentucky Central Life	4.3	def	def	2.4	4.5	-3.5	NM	P-D	341	-22	def
Washington National	def	4.2	4.2	4.6	NM	0.7	NM	D-P	563	13	2.3
ICH	def	def	4.4	61.7	-2.2*	-1.3	NM	D-D	1,848	-3	def
Equitable Cos	NA	NA	def	42.0	NM	NA	NA	NA	6,332	-229	def
John Alden Financial	NA	46.6	32.1	36.7	20.8†	NA	NM	NA	1,149	72	6.3
Medians	10.6	12.8	9.9	21.2	7.0	4.1	-9.2	16.4	1,361	72	7.1
Property & casualty											
20th Century Inds	30.0	23.5	23.5	0.0	17.4	11.4	29.4	-7.7	980	114	11.6
Mercury General	26.9	27.1	25.9	4.4	14.5	-2.4	31.8	10.6	518	75	14.5
Hartford Steam Boiler	24.1	13.1	11.8	14.6	10.2	9.1	7.6	-29.9	671	55	8.1
Geico	23.6	15.9	14.6	16.0	7.8	14.6	3.5	0.5	2,375	200	8.4
Argonaut Group	23.1	16.6	16.4	0.0	4.5	-9.7	20.6	1.9	487	91	18.7
General Re	20.1	15.6	15.4	1.6	NM	6.4	18.2	0.8	3,358	629	18.7
Orion Capital	19.3	23.3	14.5	28.7	10.6	-17.3	12.4*	76.2	655	50	7.6
St Paul Cos	18.1	10.8	10.0	12.8	6.3	5.9	18.2	-25.3	4,538	295	6.5
Chubb	17.9	14.9	12.5	18.1	6.2	6.9	13.2	-3.4	4,760	559	11.7
Progressive	17.7	23.6	13.1	48.4	15.3	15.9	-7.8	69.0	1,686	93	5.5
Selective Insurance	16.3	12.1	11.8	4.3	9.1	9.8	NM	22.9	608	33	5.4
WR Berkley	15.8	11.4	11.1	31.3	4.3	4.1	NM	10.7	557	48	8.7
Ohio Casualty	15.2	12.2	11.2	12.9	3.2	6.3	5.5	-3.3	1,793	94	5.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.
Sources: Forbes; Value Line Data Base Service via Lotus One Source.

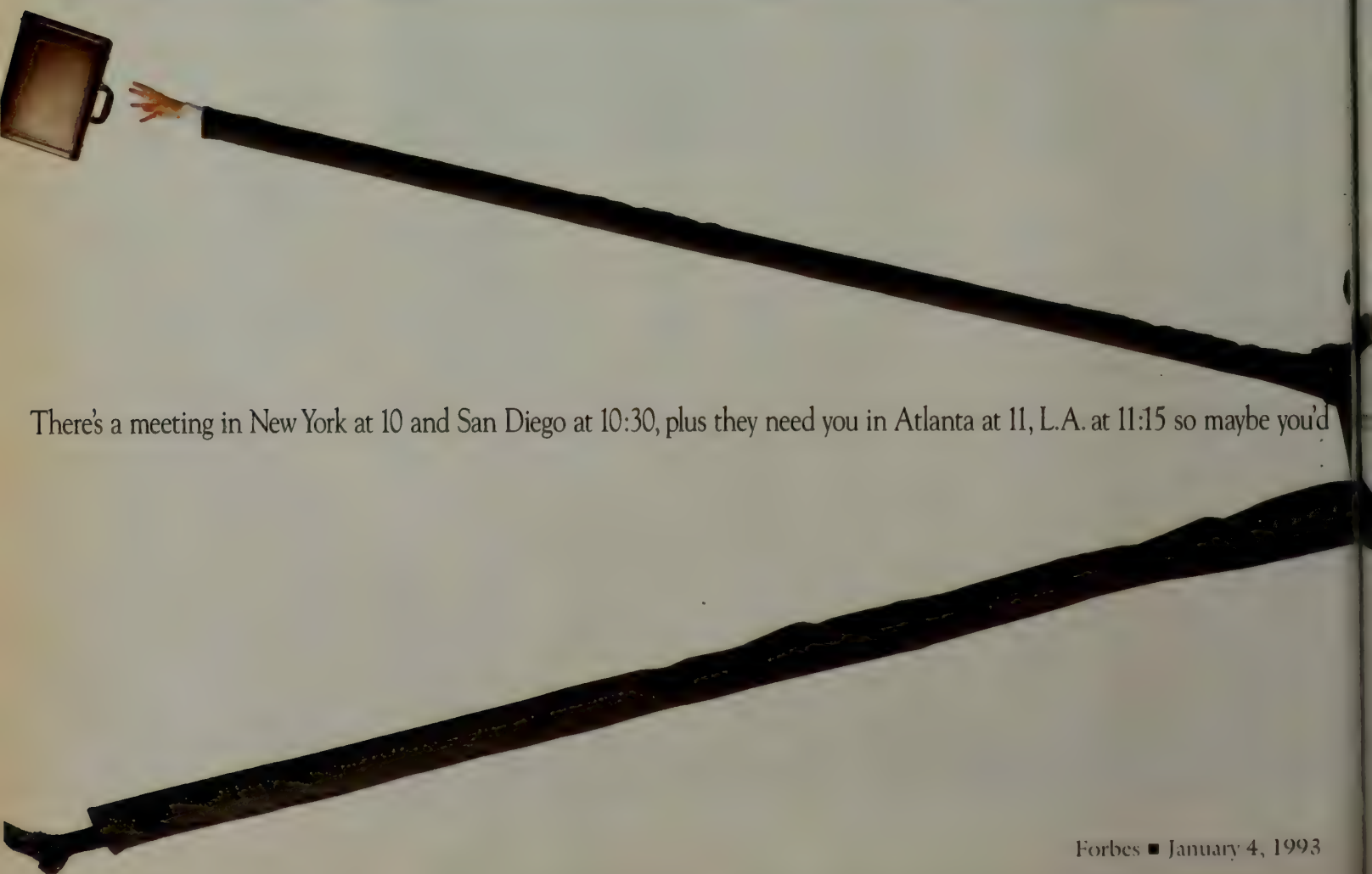
Under these circumstances stock analysts are recommending well-capitalized companies such as AIG and General Re. This minimizes the risk if the soft cycle is prolonged, and maximizes chances of profiting when a turn does come. "In a firmer market they'll be able to use more of their capital to write more insurance business,"

says Jacob.

How about the life and health insurers? They were busy cleaning up their investment portfolios last year. Companies adopted more conservative investment strategies because of concerns over ratings and tougher risk-based capital guidelines, which were adopted by state regulators

Insurance Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Cincinnati Financial	14.6	11.3	11.6	4.7	7.7	11.1	8.5	10.8	1,265	166	13.1
Fremont General	12.5	15.9	12.8	31.0	8.7	3.2	45.7†	16.9	596	34	5.7
Zenith National Ins	11.5	9.5	9.8	19.7	4.2	10.0	5.6	6.8	545	27	4.9
Hanover Insurance	11.2	14.8	14.8	0.0	8.6	2.9	-13.3	151.3	1,861	123	6.6
ITT	10.9	5.7	6.1	50.6	3.9	3.8	9.9	-23.9	21,295	552	2.6
Alleghany	10.3*	10.9	9.3	31.3	17.1	27.1	5.3*	52.2	1,714	79	4.6
Berkshire Hathaway	10.1	3.9	4.2	13.2	6.3	5.7	11.8	-40.2	3,200	288	9.0
Xerox	7.2	7.4	8.2	41.5	6.5	0.2	-7.7	-21.8	18,009	493	2.7
Penn Central	6.5*	4.2	5.0	31.6	30.5*	15.0	55.3*	-49.7	1,756	40	2.3
Foremost Corp of Amer	6.3	13.4	9.9	40.6	-3.5	4.0	-15.0	343.5	459	22	4.8
First American Finl	6.0	23.2	18.9	16.5	5.6	42.2	-39.2	500.0+	1,009	33	3.3
Continental Corp	4.3	def	def	32.9	-1.5	-7.3	NM	P-D	5,069	-84	def
USF&G	def	def	def	17.5	NM	-9.0	NM	D-D	3,868	-25	def
Medians	14.9	12.6	11.7	17.0	6.4	6.1	6.6	1.4	1,700	85	6.1

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.
Sources: Forbes; Value Line Data Base Service via Lotus One Source.



There's a meeting in New York at 10 and San Diego at 10:30, plus they need you in Atlanta at 11, L.A. at 11:15 so maybe you'd

in December. Still troubling is the fact that for the 50 largest life insurers, the percentage of troubled real estate assets continued to climb—to more than 16% of all real estate holdings last year from 13% in 1991.

Sales of traditional life insurance policies are flat. So where's the growth coming from? Annuities, for one. More than half the total cash flow of the top 50 insurers now comes from these and other retirement savings products that suit the needs of aging consumers. Also, specialty health policies, such as individual disability insurance, are selling briskly. Salomon Brothers analyst Marga-

ret Alexandre recommends outfits like Broad Inc. and Equitable of Iowa, both of which specialize in annuities, and UNUM Corp., a disability carrier.

Health care reform is high on Bill Clinton's agenda for this year. Which companies will benefit—if any? The betting is that it will be the largest insurers like Cigna Corp. and Aetna Life & Casualty, which already have established managed care networks and efficient data processing systems. Says Arthur D. Little's Louise Firth: "The successful companies will be those that get more involved with delivery and management of care."

Insurance <
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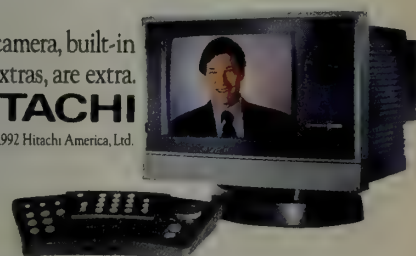
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Metals

Metal prices remain depressed, which is good news on inflation but bad news for metals companies.

By R. Lee Sullivan

Steel prices have barely budged in the last five years, but as the year ended steelmakers were trying to pass along a 2% to 5% price hike to their customers. They may get some help from a recent Commerce Department decision to counter foreign government subsidies by putting an average of 15% to 20% duties on some steel imports. But a big, long-lasting price hike won't be easy to sustain: Overcapacity continues to hamper the industry.

The betting is that if the economy picks up in the second half of 1993, steelmakers might be able to pass along a 3%

price increase, says Kemper analyst Robert Schenosky.

But even with that increase, weaker private steelmakers like National Steel and California Steel & Tube that haven't been able to modernize their plants will still be squeezed. Sharon Steel is already in Chapter 11 and has suspended all its production. Bigger, more efficient companies like Bethlehem Steel and USX-U.S. Steel should benefit from the reduced competition.

Any bright spots? Appliance manufacturers, which account for roughly 20% of demand for flat-rolled steel, have

"If you stand still, you lose"

It was bad enough that Oregon Steel Mills was mired in losses when Thomas Boklund took over in 1985. On top of rising costs, aging equipment and falling productivity, Boklund had to deal with an inexperienced work force that had been hired as replacements for strikers fired the year before.

"It's difficult to operate a steel mill with people who have never seen one," explains Boklund, 52, who started with the company as an engineer in 1973.

Boklund decided to try running a steel mill with people who actually owned one. A management-led buyout completed the same year Boklund took over gave employees 100% ownership of the firm, with top management retaining 5%. Workers went off the time clock and on salary, and were awarded the same benefits management enjoyed. Moreover, prof-

it sharing gave workers 20% of pretax earnings.

Results have been dramatic, both for individual workers—some of whom became millionaires when Oregon Steel went public in 1988—and for the company. Since the buyout productivity has increased 300%; sales and earnings grew on average more than 40% annually over the past four years.

But it took more than loyal workers to accomplish the turnaround. Since

1985 the company has invested \$170 million in facilities improvement and acquisitions. A new furnace in its Oregon mill, along with a contract for lower rates with the local electric utility, reduced total energy costs per ton of steel by 67%. The company is now considered the industry's lowest-cost producer of steel plate.

Oregon Steel has diversified into profitable niches via cheap acquisitions. It entered the large-

diameter-pipe market in 1987 by purchasing a pipe mill in Napa, Calif. for \$18.5 million, the only such facility west of the Mississippi. During the past two years pipe has contributed roughly 75% of Oregon Steel's earnings, or \$50 million.

Last June Oregon Steel entered into a joint venture to produce pipe in Canada, but contracts have been drying up recently. This venture lost around \$1.2 million in the third quarter, pulling profits down 43%, to \$3.4 million for the quarter.

Not everyone approves of Oregon's aggressive expansion and willingness to take on debt. Michael Shea, an analyst with Charter Investment, contends that Oregon Steel is leveraging its once-clean balance sheet and entering markets it knows nothing about.

But Boklund feels the company can easily take on debt as great as 30% of capital. "A down market is the time to move," he declares. "If you stand still, you lose." —R.L.S. ■



Robert McClain

Chief Executive
Thomas Boklund
at Oregon Steel's
Portland minimill
**Modernization
slashed costs and
helped increase
productivity 300%.**

been buying more tonnage in response to a 7% unit sales improvement. Scrap metal prices are relatively low, and this lowers costs for minimills like Nucor that make steel from scrap. Nickel, a prime component of stainless steel, is also a bargain at \$2.50 a pound. This helps specialty steelmakers like Allegheny Ludlum. The new Administration's proposed infrastructure rebuilding program could benefit minimills such as Birmingham Steel that make products like steel bar for reinforcing concrete.

Aluminum prices? They're weak because of an influx of ingots from the cash-hungry Commonwealth of Independ-

ent States. This has kept inventories on the London Metals Exchange bulging, and prices depressed at about 53 cents a pound. Instead of reducing production, manufacturers like Alcoa and Alcan have begun to hedge.

Last summer a temporary shortage in copper smelting capacity—because of production and maintenance problems at Phelps Dodge, Cyprus Minerals and other outfits—helped convince the market that copper was in short supply. Prices climbed as high as \$1.17 a pound before the smelter bottleneck eased and prices settled back to around \$1 a pound—about where they were a year ago.

Metals	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Steel											
Geneva Steel	35.2†	def	def	52.8	3.2†	-12.7	-35.2†	P-D	417	-8	def
Allegheny Ludlum	35.0	15.0	12.0	24.9	6.6	0.0	NM	59.6	1,011	54	5.4
Oregon Steel Mills	25.6	13.1	12.7	0.0	40.3	-4.6	47.5*	-13.8	451	32	7.2
Lukens	16.8	5.4	6.9	45.2	9.5	17.2	19.2	-66.0	767	16	2.1
Worthington Inds	16.5	15.1	12.3	11.5	1.9	14.1	NM	23.5	1,003	56	5.6
USX-US Steel	14.7	def	def	51.5	NM	-3.2	NM	D-D	5,011	-179	def
Quanex	14.7	6.5	5.6	32.4	15.2	-6.8	33.7*	-35.6	567	11	2.0
Birmingham Steel	14.2	12.1	9.0	28.3	11.3	3.5	NM	500.0+	419	21	5.0
Nucor	13.2	10.7	11.7	20.2	15.9	7.6	6.2	19.4	1,572	76	4.8
Central Steel & Wire	10.2	2.7	2.7	0.0	NM	-0.6	NM	-25.9	454	4	0.9
Carpenter Technology	8.7	4.8	4.3	30.0	2.3	3.4	22.9	-39.7	583	16	2.8
AM Castle & Co	8.0	3.5	4.9	41.7	6.6	-7.2	NM	D-P	417	2	0.5
Acme Metals	5.4	def	def	26.1	9.5	0.1	NM	P-D	387	-4	def
Texas Industries	2.0	def	2.3	43.5	NM	-6.0	NM	P-D	594	-5	def
Lone Star Tech	def	5.2	4.4	27.9	16.9	-22.5	NM	-23.3	406	7	1.6
Inland Steel Inds	def	def	def	28.8	2.1	1.3	NM	D-D	3,511	-252	def
Weirton Steel	def	def	def	59.4	-2.8	4.1	NM	D-D	1,081	-38	def
Armco	def	def	def	39.1	-11.8	19.3	NM	D-D	1,910	-295	def
Bethlehem Steel	def	def	def	62.3	NM	-10.0	NM	D-D	4,043	-818	def
LTV	NE	NE	def	NE	-4.9	-27.7	NM	500.0+	4,396	703	16.0
Wheeling Pittsburgh	NA	def	0.3	44.9	NM	-4.7	NA	NA	948	-15	def
Medians	9.5	2.7	2.7	30.0	2.3	-0.6	NM	-37.6	767	4	0.9
Nonferrous metals											
Maxxam	44.1	2.8	7.2	70.9	NM	-5.8	NM	-83.8	2,162	13	0.6
Inco	34.5	1.5	3.4	30.2	16.9	-15.4	NM	-81.8	2,650	31	1.2
Newmont Mining	30.1	53.9	28.0	35.5	10.4	-0.3	NM	40.4	628	109	17.4
Phelps Dodge	23.5	16.8	13.8	15.1	21.8	3.3	43.3	3.7	2,539	316	12.5
AMAX	16.4	def	0.4	43.7	17.4	-4.4	-26.0*	P-D	3,649	-59	def
Reynolds Metals	14.6	3.1	3.8	35.0	10.2	-3.5	NM	-37.6	5,676	91	1.6
Asarco	11.8	2.9	2.7	31.3	13.8	-2.0	-32.2*	13.0	1,928	43	2.2
Alcan Aluminium	10.8	def	1.2	27.8	6.2	-7.2	NM	P-D	7,580	-6	def
Cyprus Minerals	10.3	def	def	17.3	20.2	-7.7	NM	P-D	1,617	-284	def
Alcoa	9.4	def	2.1	11.3	9.6	-6.7	-16.6	P-D	9,474	-34	def
Engelhard	6.9	13.0	12.0	12.5	2.4	-2.7	6.1	13.5	2,441	98	4.0
Magma Copper	4.5*	def	def	40.0	17.5	16.3	NM	P-D	820	-88	def
Homestake Mining	0.9	def	def	25.7	7.7	36.8	NM	D-D	586	-167	def
Handy & Harman	def	14.5	7.0	69.1	NM	11.9	NM	D-P	545	11	2.1
Tredegar Industries	NA	8.6	6.0	34.6	-2.1	0.1	NA	D-P	478	13	2.7
Medians	11.3	2.8	3.4	31.3	10.2	-2.7	NM	-81.8	2,162	13	1.2
Industry medians	10.5	2.8	3.1	30.8	6.6	-2.3	NM	-39.7	1,007	9	1.0
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. P-Z: Profit to zero. Z-D: Zero to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.



Retailing

During the recession retailers and vendors got together and came up with better ways to manage inventory. The result should be bigger profits during the recovery.

By Zina Moukheiber

Thanks to rising consumer confidence and an encouraging Christmas season, retailers were well on the way to their best year since 1988. But it was no barn-burner. When the final numbers are tallied, retail sales for all of 1992 will probably be up about 4%—a shade above the inflation rate—estimates Carl Steidtmann, chief economist at Management Horizons, a division of Price Waterhouse.

Steidtmann credits some of this slender gain to the reduction in withholding tax, which went into effect last February. Also helping: Victims of Hurricane Andrew have used some of the \$11 billion in recovered insurance claims to replace goods lost in the storm.

The retailers followed in our own survey posted a 9.6% sales improvement over the last 12 months. But the group's profits were up 11.3%. The improving margins are a sign that retailers' drive to become more efficient is

starting to pay off. One way they've done this is by forging relationships with vendors to reduce inventory carrying costs. Dayton Hudson, Kmart, Wal-Mart Stores and J.C. Penney—all of which posted strong earnings for the first three quarters—have begun retailer-vendor partnership programs.

Computerized monitoring of sales data and inventory levels, for instance, allows Procter & Gamble to automatically replenish Kmart's stock of Crest toothpaste when needed. "This technology enables retailers to reduce expenses and layers of management and get the decision making process closer to the customer," says Jack Schultz, president of the National Retail Federation. "Everybody in the store, including the stockman and the sales associate, has information available."

Although a few department store chains, like J.C.

Retailing	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos %	Debt/ capital %	Sales		Earnings per share		latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
	5-year average %	latest 12 mos %			5-year average %	latest 12 mos %	5-year average %	latest 12 mos %			
Company											
Department stores											
May Dept Stores	19.7	17.8	10.5	41.0	8.2	3.5	14.3	10.3	10,907	550	5.0
Dillard Dept Stores	16.5	13.8	10.3	37.5	17.2	14.4	19.4	5.8	4,496	219	4.9
Mercantile Stores	12.3	5.9	6.0	16.1	3.6	8.2	NM	-37.8	2,633	73	2.8
JC Penney	12.2	9.4	7.2	31.4	2.0	7.4	-7.0	0.9	18,393	439	2.4
Strawbridge	9.6	5.9	5.6	45.0	5.8	1.9	-9.8	60.9	973	15	1.5
Sears, Roebuck	8.9	2.3	3.6	55.3	5.7	2.5	NM	-70.9	58,238	347	0.6
Neiman Marcus Group	def*	3.9	7.3	44.5	10.5	5.7	NM	D-P	1,853	41	2.2
Carter Hawley Hale	NE	NE	def	171.6	-5.6	-5.7	NM	D-D	2,117	-154	def
Federated Dept Strs	NA	NA	5.1	44.2	NA	-1.5	NA	NA	6,952	272	3.9
Medians	10.9	5.9	6.0	44.2	5.7	3.5	NM	3.3	4,496	219	2.4
Apparel											
Gap	40.4	33.6	30.7	8.4	23.8	21.1	27.8	11.9	2,834	229	8.1
Limited	30.0	21.8	15.9	30.2	14.3	12.6	15.6	8.7	6,572	412	6.3
Merry-Go-Round	25.2	10.3	9.9	21.5	31.8	14.9	29.1	-52.1	800	21	2.6
Ross Stores	20.8	18.8	15.7	19.9	11.9	11.5	18.9*	23.8	1,006	32	3.1
Melville	19.9	14.9	15.3	2.5	13.4	4.8	8.6	1.6	10,200	355	3.5
Edison Bros Stores	19.6	16.4	13.4	22.0	9.5	7.3	13.1†	2.5	1,446	63	4.4
Charming Shoppes	17.7	19.5	18.2	6.7	13.6	15.8	3.7	37.6	1,137	75	6.6
Nordstrom	17.7	13.6	10.4	30.6	14.4	7.3	10.9	-9.8	3,331	128	3.8
J Baker	16.4	10.4	8.4	47.6	26.2	14.6	NM	87.3	517	11	2.1
Burlington Coat	12.6	12.1	10.6	25.2	15.8	14.4	7.4	26.4	1,025	31	3.1
Genesco	11.8	4.5	5.3	33.3	NM	7.8	NM	500.0+	514	7	1.4
Brown Group	7.4	def	0.8	29.7	3.7	2.6	-10.7	P-D	1,775	-4	def
US Shoe	4.0	3.2	4.0	18.5	6.8	-2.9	10.4	D-P	2,657	16	0.6

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

The neighborhood pharmacist

Back in 1901, when Charles Walgreen Sr. opened his first drugstore in Chicago, he would phone customers and ask about their well-being. While Walgreen chatted on the phone, the store porter would knock at the door with the delivery. Customers loved it.

Walgreen Co. now fills more than 118 million prescriptions a year. So personal service at his grandfather's level isn't possible for Charles Walgreen III, the current chairman. But Walgreen, 57, still strives to have the firm deliver the small-town kind of service that helped make Walgreen the biggest drugstore chain in the country. Its 1,761 drugstores, which also carry other goods ranging from motor oil to magazines, earned the company \$221 million in the fiscal year ended last August—its 18th consecutive year of record earnings.

As malls became a less favorite shopping spot in the 1980s, Walgreen sensed that people with prescriptions preferred the convenience of picking up their medicine near their homes, without going through the hassle of finding a parking spot. Gradually, the company started closing some mall and strip-center stores, and began building free-standing stores at busy intersections. "This is the future," says Walgreen, who plans to open 86 free-standing stores this year.

The company is experi-

menting with other formats, too. In 1991 it opened six pharmacy-only stores in Evansville, Ind. after a successful test of such stores in a Chicago suburb. Called RxExpress, the 1,500-to-2,000-square-foot stores added a new convenience: drive-through windows.

"The company is an excellent example of how to effectively utilize technology and react quickly to consumer needs," says Duane Norris, a retail food and drug analyst with Salomon Brothers. For instance, when Hurricane

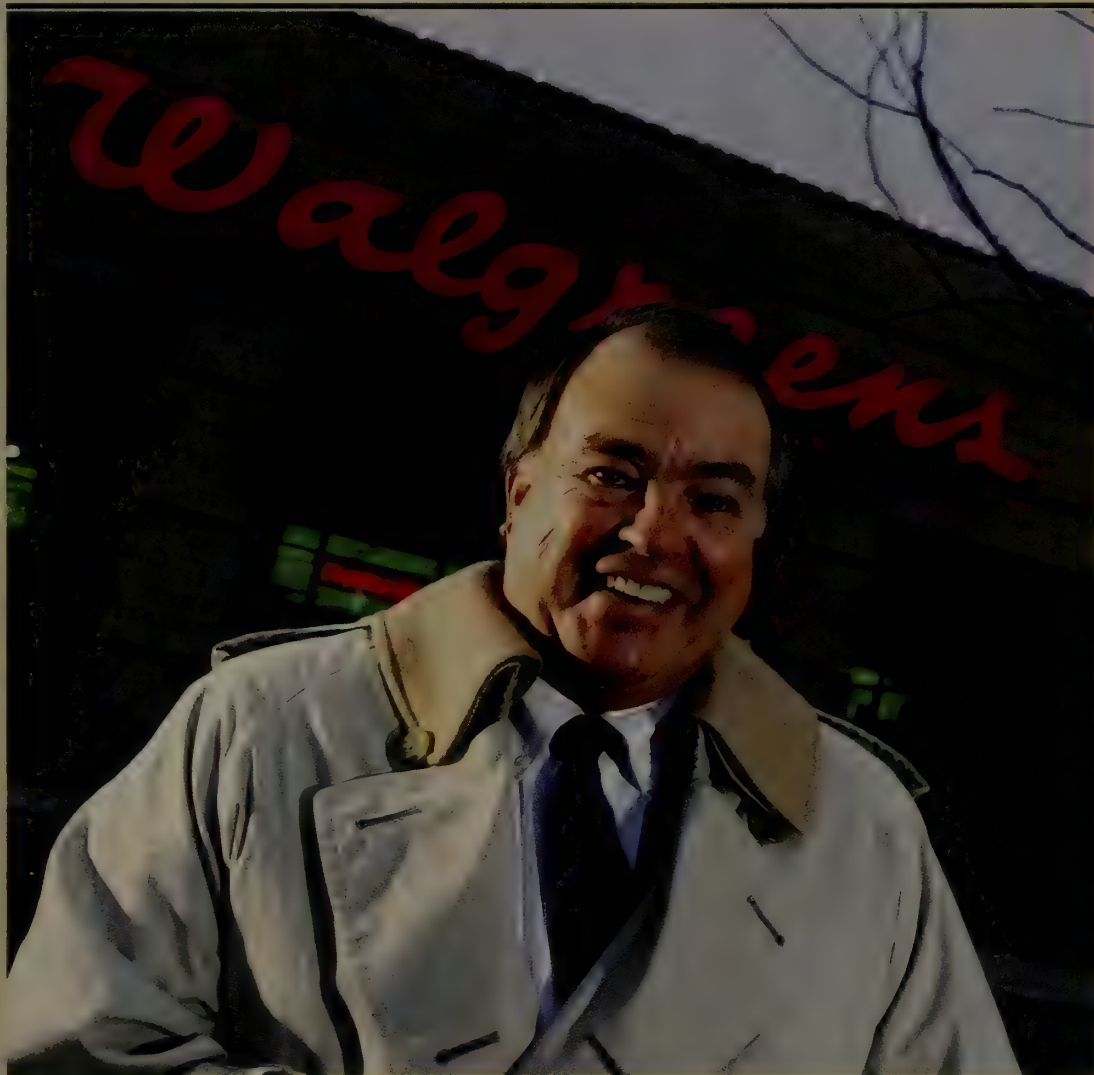
Andrew ravaged southern Florida last August, the Walgreen store in Perrine was totally destroyed. Within two days Walgreen had a trailer on-site with a running pharmacy.

Like every Walgreen outlet, the emergency store had a satellite dish on top that links it to headquarters. This gives Walgreen the ability to fill prescriptions at any of its branches. So if a New York customer is traveling, say, in Puerto Rico and needs a refill, the local Walgreen can get his medical history via satellite and refill the

prescription.

Walgreen has also been responding to the challenge of the rapidly growing \$3 billion mail-order prescription business. It recently opened a state-of-the-art distribution center in Orlando, Fla. This facility will dispense as many as 15,000 prescriptions a day.

Says Salomon Brothers' Norris: "People like Walgreen say, 'Okay, mail order is taking some of our business.' Do they give up? No, they go down and build their own mail-order facility." —Z.M. ■



Chairman Charles Walgreen III
Giving consumers what they want.

Penney, Dillard Department Stores, Nordstrom and Belks, are doing well, the group as a whole continues to lose market share—particularly to discounters, factory outlets and warehouses. Carter Hawley Hale, though out

of bankruptcy, is still struggling. One exception: Federated Department Stores, which emerged from Chapter 11 in February 1992. It's performing better than expected, and has doubled its operating income to \$207 million in the

Retailing	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Company	%	%	%	%	%	%	%	%			
Petrie Stores	3.5	1.7	2.1	15.1	2.1	4.1	-25.2	35.3	1,398	11	0.8
AnnTaylor Stores	NA	0.3	3.6	42.5	17.7	4.5	NA	-90.0	454	2	0.4
Filene's Basement	NA	17.5	18.2	23.6	13.4	15.0	NA	10.7	510	18	3.6
TJX Cos	NA	13.7	9.1	34.8	14.4	14.6	-19.5	-50.0	3,063	39	1.3
Medians	17.7	13.6	10.4	23.6	13.6	11.5	8.6	10.7	1,398	31	3.1
Consumer electronics											
Intelligent Electron	30.8	8.7	8.2	9.2	140.0	39.3	63.6	-38.0	2,276	22	1.0
Circuit City Stores	23.5	18.8	16.8	15.0	22.0	17.6	12.2	53.8	2,963	86	2.9
Good Guys	20.2	8.1	8.9	0.0	36.0	22.2	38.5	-36.7	489	8	1.6
MicroAge	17.8	11.2	13.3	29.7	39.0	23.6	NM	3.2	934	5	0.5
Inacom	15.7	10.3	8.6	33.9	43.4	79.4	NM	44.3	990	9	0.9
Tandy	13.9	8.8	8.3	12.0	6.3	5.7	-5.3	-13.8	4,788	174	3.6
Best Buy Co	9.2	7.7	7.3	17.8	26.1	47.8	NM	27.1	1,102	11	1.0
InterTAN	1.9	def	def	16.6	7.6	3.2	NM	P-D	700	-52	def
CompUSA	def†	21.7	18.7	3.9	94.7	51.0	NA	D-P	918	10	1.1
Medians	15.7	8.8	8.6	15.0	36.0	23.6	NM	3.2	990	10	1.0
Drug & discount											
Pamida Holdings	38.0	42.4	9.5	93.8	5.8	-7.0	NM	D-P	623	4	0.7
Wal-Mart Stores	33.2	26.5	19.2	29.9	28.7	27.7	28.2	23.8	52,029	1,848	3.6
Venture Stores	21.6	36.0	22.3	33.2	6.0	12.5	NM	13.2	1,665	46	2.8
Walgreen	20.7	20.3	16.5	7.9	11.7	11.0	15.7	12.7	7,475	221	3.0
ShopKo Stores	20.7	15.9	11.9	38.2	12.9	6.2	18.2	3.2	1,687	51	3.0
Family Dollar Stores	19.7	24.5	23.0	0.0	15.2	17.1	17.6	37.9	1,159	56	4.8
Arbor Drugs	18.8	15.3	13.5	9.7	17.4	17.2	22.5	12.6	493	16	3.3
Mac Frugal's Bargains	16.8	14.6	11.3	22.3	12.8	2.9	-6.5	16.1	539	33	6.1
Rite Aid	16.7	13.8	10.7	29.1	14.9	8.6	3.8	9.6	3,908	130	3.3
Longs Drug Stores	16.5	11.7	11.1	0.0	8.2	2.5	8.6	-9.6	2,457	52	2.1
Dayton Hudson	16.3	11.3	7.7	59.4	11.6	9.7	10.0	-18.6	16,890	304	1.8
Fay's	15.2	12.4	8.4	47.9	12.3	12.2	20.3	12.7	884	11	1.2
Genovese Drug Stores	14.6	14.7	9.5	36.9	10.7	3.8	18.4	-1.5	461	7	1.4
Kmart	13.9	11.7	10.2	36.8	7.7	9.0	NM	3.6	37,089	885	2.4
Medco Containment	12.5	17.6	15.8	27.9	43.1	35.6	40.5	45.9	1,956	108	5.6
Dollar General	12.3	19.5	18.4	18.6	5.2	22.3	36.9	62.9	872	31	3.6
Fred Meyer	10.6	13.4	9.6	35.1	10.0	7.5	7.0	27.6	2,787	52	1.9
Woolworth	10.3	def	0.3	14.5	9.4	1.2	NM	P-D	9,963	-13	def
Drug Emporium	10.1	def	def	55.2	25.1	7.9	NM	P-D	755	-4	def
Consolidated Stores	7.5	17.8	14.8	20.8	11.2	19.1	-10.4	200.0	875	31	3.5
Big B	6.1	10.9	9.1	32.2	20.5	2.4	NM	39.5	496	8	1.6
Pacific Enterprises	1.9	def	def	49.8	5.8	-42.2	NM	P-D	3,815	-740	def
Perry Drug Stores	def	10.0	6.8	60.2	-1.0	5.6	NM	500.0+	673	5	0.8
Jamesway	def	def	2.6	46.7	7.5	-1.6	NM	D-D	893	-1	def
Rose's Stores	def	def	def	42.8	3.8	-6.5	NM	D-D	1,371	-35	def
Ames Dept Stores	def	NE	def	500.0+	12.0	-14.2	NM	D-D	2,680	-262	def
Hills Dept Stores	def	NE	9.5	181.2	7.0	-4.9	NM	D-P	1,715	22	1.3
Caldor	NA	18.0	11.7	63.7	5.7	9.6	NA	290.9	2,014	29	1.5
Hook-SupeRx	NA	70.2	10.3	91.8	19.1	7.0	NA	266.7	2,135	16	0.7
Value City Dept	NA	26.8	22.7	8.1	17.8	12.9	NA	22.5	662	30	4.5
Medians	13.9	14.2	10.3	35.9	11.4	7.7	-6.5	13.0	1,676	30	1.8

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. †Four-year average. ‡Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

first three quarters of last year. Some specialty stores, like the Gap, are also starting to lose market share to the discounters.

Catalog retailers such as Spiegel and Fingerhut—which

can target specific customers through sophisticated mailing programs—are growing at twice the pace of the retailing industry. But don't be surprised if there are soon too many catalog houses chasing after too few customers.

Retailing	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/ capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos	latest 12 mos	latest 12 mos
Company	%	%	%	%	%	%	%	%	\$mil	\$mil	%
Home improvement											
Home Depot	28.2	18.6	17.6	27.7	38.3	36.8	44.4	35.2	6,629	333	5.0
Wabam	17.5†	10.5	9.7	31.7	24.9	17.7	NA	60.3	3,157	41	1.3
Hechinger	8.4	def	def	30.7	22.7	16.2	-10.3	P-D	1,811	-31	def
Lowe's Cos	8.1	4.4	4.8	22.4	5.7	24.3	-23.3	-46.7	3,646	29	0.8
Grossman's	7.0	2.8	4.2	24.6	-5.7	2.2	NM	D-P	829	4	0.5
Medians	8.4	4.4	4.8	27.7	22.7	17.7	-16.8	35.2	3,157	29	0.8
Home shopping											
Service Merchandise	40.9	77.4	18.0	86.6	6.6	3.4	20.1*	17.1	3,532	84	2.4
Lands' End	29.7	25.8	25.0	1.3	21.0	12.9	7.2	47.5	724	33	4.5
Blair	29.5	23.4	23.4	0.0	7.2	0.3	13.0	1.4	490	33	6.8
Spiegel	14.3	3.6	4.3	57.5	16.9	1.3	-12.1	-59.7	2,063	16	0.8
Home Shopping	9.5	22.6	13.4	47.7	14.1	1.8	NM	D-P	1,098	37	3.4
QVC Network	6.6	13.4	12.2	23.8	NM	13.5	NM	33.3	1,010	46	4.6
Horn & Hardart	def	NE	def	500.0+	9.1	-0.6	NM	D-D	602	-49	def
CUC International	NE	NA	55.2	50.5	27.4	15.3	NM	-8.2	689	33	4.7
Fingerhut Cos	NA	13.0	11.9	23.9	8.9	7.5	NA	2.0	1,520	53	3.5
Medians	11.9	18.0	13.4	47.7	9.1	3.4	NM	2.0	1,010	33	3.5
Specialty retailers											
Blockbuster	34.3	23.5	21.2	16.4	112.3	32.4	69.0*	34.6	1,054	126	12.0
Sotheby's Holdings	32.4	4.4	4.4	0.0	NM	-7.7	NM	-44.7	229	11	4.7
AutoZone	32.3	28.4	29.2	2.3	23.2	22.5	81.4	32.8	1,002	63	6.3
Tiffany	28.4	9.4	8.1	19.1	23.1	-0.4	28.3	-45.5	483	19	4.0
Jostens	27.7	19.1	17.2	12.6	10.2	3.3	NM	-8.2	889	59	6.7
CPI	24.0	14.2	13.9	0.2	9.6	15.0	22.4	-28.2	440	23	5.2
Trans World Music	23.7	11.9	10.9	19.7	25.3	11.9	10.1	14.0	436	11	2.5
Price Co	20.6	16.7	11.3	38.5	17.4	10.9	11.6	-2.6	7,320	129	1.8
Toys 'R' Us	19.3	14.3	12.6	20.4	20.3	13.7	17.2	12.1	6,464	355	5.5
Costco Wholesale	17.9	15.7	16.2	0.1	36.4	22.5	77.3	25.7	6,500	113	1.7
Pier 1 Imports	14.6	14.2	11.0	48.6	18.3	2.9	NM	99.8	598	25	4.1
Fabri-Centers of Amer	13.9	4.9	5.3	44.7	14.1	27.9	39.6†	-56.3	568	7	1.2
House of Fabrics	13.5	9.3	8.9	3.4	8.6	30.5	20.9	-7.7	547	17	3.1
Michaels Stores	13.1	13.2	15.1	0.0	28.6	14.1	16.3	68.2	436	15	3.4
Pep Boys	12.5	12.8	9.6	26.6	16.1	16.1	4.7	35.9	1,127	52	4.6
Musicland Stores	12.0†	22.3	13.2	50.1	16.5*	11.6	NA	500.0+	988	16	1.6
Smart & Final	11.8	14.2	13.8	1.9	14.3	12.8	NM	341.7	731	14	1.9
Office Depot	10.7*	10.2	10.4	1.4	NM	39.9	25.9†	142.2	1,596	32	2.0
Staples	8.1†	7.6	6.8	37.5	85.2	78.3	NM	295.7	807	12	1.4
Egghead	5.7	9.4	9.5	0.8	48.6	13.2	NM	-25.7	672	13	1.9
General Host	4.5	6.7	6.5	59.5	NM	2.5	NM	3.6	531	10	2.0
Getty Petroleum	4.3	def	2.2	51.7	2.5	-14.8	NM	D-D	1,048	-5	def
Dart Group	3.3	2.7	5.8	20.9	31.0	7.4	-36.8†	70.2	1,223	8	0.6
Lionel	def	NE	def	401.6	3.4	-18.5	NM	D-D	312	-101	def
Jenny Craig	NA	121.6	65.7	0.0	65.9	5.5	NA	4.7	455	42	9.3
Kohl's	NA	17.3	NA	61.4	NA	16.6	NA	7.1	1,006	17	1.7
Medians	13.7	13.0	10.9	19.4	17.4	13.0	10.1	9.6	769	17	2.3
Industry medians	13.9	12.4	10.0	29.1	13.4	9.6	-6.5	11.3	1,102	29	2.1
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.

Transport

In 1992 business was pretty bad for railroads and maritime companies. Truckers started to recover, but they will soon face new government regulations.

By Warren Midgett

Trucking picked up a bit last year, with total tonnage rising about 6.4% over 1991. A reviving economy should keep the recovery going this year, but watch out for roadblocks in 1994.

New trucking equipment must reduce diesel emissions to meet the new standards of the Clean Air Act. New trucks will cost more to buy and maintain. In addition, refiners are required to produce cleaner diesel fuel with a lower sulfur content. It's estimated the new fuel will cost 4

to 7 cents more a gallon, which is expected to mean \$1,000 a year in extra fuel costs per truck. Other rules, if passed, will set limits on the number of consecutive hours a truck driver can spend on the road. Companies like Roadway Services, with its well-structured relay system (*see box*), won't be adversely affected by the new rules. It's not clear how they could affect long-haul shippers such as J.B. Hunt Transport and Werner Enterprises.

But the industry is also beginning to reap the economic

Transport	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital latest 12 mos	Debt/capital	Sales		Earnings per share				
	5-year average	latest 12 mos			5-year average	latest 12 mos	5-year average	latest 12 mos	latest 12 mos	latest 12 mos	latest 12 mos
Company	%	%	%	%	%	%	%	%	\$mil	\$mil	%
Railroads											
Union Pacific	10.6	17.2	9.1	38.3	2.5	2.0	-33.8*	500.0+	7,179	720	10.0
Norfolk Southern	7.6	2.3	1.6	18.4	2.3	1.4	19.6	-80.1	4,535	75	1.7
Kansas City Southern	7.5	12.8	10.0	31.9	3.6	20.9	NM	38.6	703	60	8.6
CSX	6.5	def	def	38.5	4.7	2.6	NM	P-D	8,765	-488	def
Burlington Northern	5.9	20.0	8.2	42.6	3.0	2.1	NM	D-P	4,626	231	5.0
Consolidated Rail	1.0*	def	def	32.4	0.7	2.7	NM	P-D	3,335	-186	def
Santa Fe Pacific	def†	def	0.7	44.5	1.4	7.9	NM	P-D	2,489	-71	def
Chicago & N Western	NA	NE	4.4	75.0	1.4*	1.5	NA	NA	982	-23	def
Illinois Central	NA	28.6	13.4	45.0	-3.1	0.7	NA	13.6	541	74	13.8
Medians	6.5	2.3	4.4	38.5	2.3	2.1	NM	-33.3	3,335	60	1.7
Trucking & shipping											
Alexander & Baldwin	22.1	11.9	8.2	41.3	6.3	1.7	NM	0.0	722	88	12.2
JB Hunt Transport	19.0	16.5	9.5	36.9	28.5	24.8	5.3	29.7	865	35	4.1
Roadway Services	14.8	16.5	15.7	0.0	14.0	13.5	17.1	20.2	3,496	147	4.2
Yellow Freight Sys	9.3	7.1	6.1	15.0	7.3	-2.9	-11.9	-6.6	2,279	36	1.6
Overseas Shipholding	7.6	5.0	5.1	40.1	8.0	-3.6	12.2	-27.7	399	38	9.5
TNT Freightways	7.6	8.7	6.5	11.7	28.2	NA	15.5	NA	759	19	2.5
American President	3.9	15.9	9.9	39.0	10.1	3.7	NM	62.6	2,504	79	3.2
Carolina Freight	2.5	def	1.4	39.0	5.9	3.5	-40.5	P-D	789	-1	def
Consol Freightways	def	def	2.7	29.0	16.7	-3.0	NM	D-D	4,038	7	0.2
Preston	def	def	def	54.2	6.7	0.5	NM	P-D	573	-8	def
Medians	7.6	7.9	6.3	38.0	9.0	1.7	-26.2	-6.6	827	36	2.8
Air freight											
Air Express Intl	28.0	26.8	21.4	14.7	13.4	11.7	22.8	37.0	662	18	2.7
Harper Group	14.5	2.4	2.4	16.8	21.0	-5.3	13.6	-81.6	433	4	0.9
Airborne Freight	11.6	1.1	2.5	53.2	21.2	9.5	19.4	-86.6	1,451	8	0.4
Federal Express	2.1	def	def	52.0	21.0	-0.1	NM	D-D	7,589	-119	def
Pittston	0.7	def	def	25.1	10.2	4.7	NM	P-D	2,019	-34	def
Medians	11.6	1.1	2.4	25.1	21.0	4.7	13.6	-86.6	1,451	8	0.4
Industry medians	7.5	3.7	4.8	38.4	7.0	2.1	NM	-53.9	1,735	19	1.6
All-industry medians	12.2	10.7	8.8	31.2	8.1	3.4	-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.
Sources: Forbes; Value Line Data Base Service via Lotus One Source.

The 1993 pony express

Over the past ten years, rate-cutting in the trucking industry has sprawled casualties all over the highways. But \$3.5 billion (revenues) Akron, Ohio-based Roadway Services, Inc. has emerged as the nation's most profitable publicly held trucker. It had net income of \$147 million last year, four times the industry median.

"What we had to learn through some expensive tuition in the 1980s was how to become a customer-focused, market-driven company while retaining our old skills," says Joseph M. Clapp, Roadway chairman and president.

The company's core business is its Roadway Express subsidiary, which uses a hub system to move long-haul, less-than-truckload shipments through more than 600 terminals in all 50 states.

On a typical 1,000-mile haul, a shipment may be relayed three times as fresh drivers pick up the load. A sort of modern pony express. Most of the drivers return to their home base each night.



Joseph Clapp,
chairman of
Roadway Services
**Success through
operational
competence and
conservative
financial
management.**

The result is low driver turnover. "Pretty close to zero," says Alex. Brown & Sons analyst John Larkin, "versus about 5% for the rest of the LTL industry."

Once a family-owned business, Roadway was founded in 1930 by brothers Galen and Carroll Roush. At the time, the company had only ten drivers, hauling freight to just three states. The company went public in 1956 after Carroll decided to sell his interest in the company. Clapp, 56, who started as an employee relations manager in 1967, helped build Roadway into a strong national carrier with 38,000 employees and

over 30,000 trucks.

One of Roadway's more successful ventures: its \$1 billion (estimated revenues) Roadway Package System, which now is second only to United Parcel Service in 2-to-4-day small package delivery. The division has 224 terminals in 44 states. Alex. Brown's Larkin figures the unit earned \$73 million last year.

Acquisitions? To expand its Viking Freight subsidiary, in 1991 Roadway bought part of the assets of Oregon Freightways and Peters Truck Lines, fortifying its position in the Pacific Northwest. Last year it bought Cole's Express of New England.

And in November the company made an offer for Central Freight Lines of Waco, Tex., a carrier that serves all of Texas and five other Sunbelt states. With Mexican partners, Roadway two years ago became the first LTL carrier to establish Mexican operations—a move Clapp sees giving the carrier a leg up as free trade develops.

Clapp believes in conservative financial management: The company is virtually debt-free and sits on some \$309 million in cash. Roadway has good reason to feel it has the highway to itself. Just like the pony express.

—W.M. ■

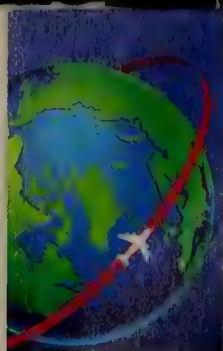
rewards of advanced communications technology. One example: satellite-based communications systems that let drivers contact their headquarters without using a telephone. The parent company can monitor each truck's location and speed. Schneider National, a large private carrier, became the first company to broadly adopt such a system. Other carriers have followed their lead.

How about the railroads? With improvements in grain and automotive rail freight activity, the nation's rails posted a 1% gain in carloadings and a 7% gain in intermodal shipping through November of last year, compared with the year-earlier period. But the industry's profitability is still declining. Profit margins fell by 4.3 points for the median companies. And latest 12-month earnings per share dropped 27 percentage points from

the year-earlier period.

Last June several lines were hit by a two-day strike over wages and work rules. Congress ordered workers back to the trains. The latest labor agreements give the railroads more flexibility in reducing locomotive crews to two workers. Employees also have to shoulder a little more of their benefit packages. Eventually, the agreement should help the carriers' profitability.

Last year a few of America's biggest maritime shippers—American President Lines, Sea-Land Service and Merchant Marine Unions—unsuccessfully attempted to get Congress to pass a bill to reform U.S. shipping laws. Among the requested changes: tax treatment on a par with that of foreign nations and safety standards more in line with those of foreign-flagged vessels. ■



Travel

Carl Icahn is out.
Can Al Checchi and Gary Wilson
be far behind?

By William Heuslein

All told, a year of bad news. Matching their dismal 1991 performance, the airlines lost another \$2 billion last year, bringing the three-year red ink total to a staggering \$8 billion. Three big carriers—Continental, TWA and America West—are operating under Chapter 11 bankruptcy protection; others may join them.

A bloody summer fare war and just too many planes to fill up with travelers proved to be the carriers' undoing. Filling up empty seats with discount fares doesn't help if packed planes are still flying at a loss.

Rational pricing remained elusive. American Airlines boss Robert Crandall's bold experiment in a simplified four-tier pricing structure was a bust: Rampant fare undercutting by competitors did it in. AMR Corp., the parent of American, will probably post record losses in 1992. Late

last year nearly 600 of American's managers got the ax.

At year's end, TWA's Carl Icahn finally reached a tentative deal with the government's Pension Benefit Guaranty Corp. Investor Icahn—who was potentially liable for about \$1 billion in pension costs—bows out after seven years of ownership. Icahn agreed to lend TWA \$200 million and guarantee as much as \$240 million in pension payments over eight years. Pending approval by the federal bankruptcy court, Icahn would give up all his holdings in TWA; the reorganized carrier would be owned by its employees and former creditors.

Financially strapped Northwest Airlines canceled a \$3.5 billion order for Airbus Industrie jets and delayed delivery of \$2.7 billion of Boeing jets. As part of a \$2.2 billion refinancing program of loans and savings, Northwest's

Travel <

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus One Source.



Ohio newspaper prepares for future with state-of-the-technology plant.

Unable to expand at its downtown Cleveland location, *The Plain Dealer*, Ohio's largest newspaper, chose to move its printing operations to a satellite production plant.

Strategically located at suburban Brooklyn, near major highways and railroads, *The Plain Dealer's* 450,000-square-foot production plant will house: printing, paper-handling, mailroom, packaging and distribution systems.

At the heart of the operation will be four state-of-the-technology presses, housed in a seven-story section of the plant.

They will provide better reproduction of editorial and advertising content, and more color throughout the newspaper.

Editorial and advertising copy will continue to be prepared in downtown Cleveland and then instantaneously transferred to the Brooklyn plant.

This will augment *The Plain Dealer's* already strong capability to publish late-breaking news and sports reports.

Advanced technology will make possible greater coverage of local areas on a zone-by-zone basis.

Sophisticated systems will increase the newspaper's capacity to insert special sections targeted to specific reader groups.

The Austin Company was commissioned to design, engineer and construct *The Plain Dealer's* production plant.

Austin's Facility Location Department assisted *The Plain Dealer* in evaluating potential sites for the new plant.

The Austin Company, 3650 Mayfield Road, Cleveland, Ohio 44121. Phone: (216) 382-6600. Facsimile: (216) 291-6684. Offices in principal cities worldwide.



**THE AUSTIN
COMPANY**

CONSULTANTS
DESIGNERS
ENGINEERS
CONSTRUCTORS

suppliers and lenders—including big shareholder KLM Royal Dutch Airlines—are pumping \$250 million worth of loans into Northwest. Dealers Alfred Checchi and Gary Wilson avoided Chapter 11 and bought some time.

Two-time bankrupt Continental Airlines drew bids from a number of prominent suitors. The \$450 million winner—subject to government and court approval—was the team of Air Canada, run by former Continental head Hollis Harris, and Robert Bass' former dealmaker David Bonderman and his Air Partners.

USAir is still awaiting the U.S. government's decision on whether to allow British Airways to invest \$750 million in the American airline for 44% of total equity. If the deal is rejected, USAir might be forced to file for Chapter 11.

Meanwhile, Delta Air Lines is losing big money on the European routes it acquired from Pan Am. The rating agencies have put Delta on credit watch. For the first time

ever, the airline is considering cutting wages. United's startup in Latin America—routes bought from Pan Am—was a drain on earnings.

How about this year? Says First Boston analyst Paul Karos: "The biggest issue facing the industry in 1993 is that we are most likely not going to see any large supply reductions. It looks like all the Chapter 11 airlines will continue to fly. So it's going to be very difficult for the large airlines to make any sizable amount of money."

Meanwhile, the hotel business continues to suffer from a severe oversupply of rooms. Demand has picked up, but prices have not. Occupancy rates were under 63% last year.

Marriott Corp. planned to split up its hotel management operations and property assets into two separate companies, with its problems concentrated in one. But bondholders are less than pleased with this proposal and have filed suit.

Cost containers

Circus Circus Enterprises may mimic Walt Disney but it's certainly no Mickey Mouse operation.

The Nevada hotel and gaming company was early in identifying the market for theme-based casino-resorts for low- and middle-income gamblers. Recognizing and exploiting that niche helped put both its chairman, William Bennett, and his partner, William Pennington, on The Forbes Four Hundred.

Bennett and his team are major forces driving the market change going on in Las Vegas these days. No more simple hotels sitting on top of casinos offering just gaming machines and tables. Replacing the box-on-top-of-box look is the so-called spectacle property—to draw both the gambler and the vacation traveler.

Says analyst John Rohs of Wertheim Schroder, "That's where the action is today. You've got to entertain with more than gaming. The properties that don't have anything

particularly exciting to offer people are the ones that are losing market share."

Among Circus' spectacles: Excalibur, the huge, two-year old, \$290 million hotel and casino styled as a medieval castle, where jousting knights entertain gamblers who come to play the one-armed bandits. Even with 4,032 rooms, Excalibur maintains a near-100% occupancy rate.

Rising out of the desert and opening come autumn: Luxor, a 30-story Egyptian-motif pyramid casino/hotel theme park with a \$300 million price

tag, complete with a reproduction of King Tut's tomb and the River Nile. With 90,000 square feet of casino space to boot.

Opening this summer: the \$75 million Grand Slam Canyon—replete with river rides and a roller coaster—adjacent to the company's flagship Circus Circus-Las Vegas.

That kind of attraction is helping transform Las Vegas into more of a family destination resort. And customers are responding. During last summer's airfare war, Las Vegas was the number one destination booked by travelers.

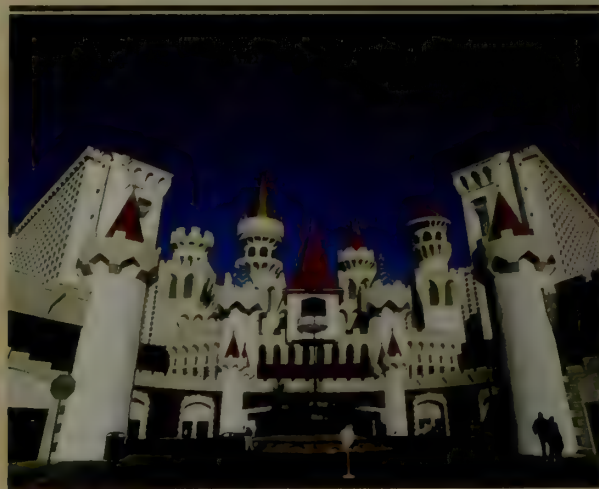
Low expenses allow Circus to keep its prices low. It doesn't ply visitors with the extravagancies usually associated with Las Vegas.

Result: 1992 earnings per share are estimated at \$2.19, a 19% increase during a sluggish economy.

"The future of this industry is the middle-income market," says Glenn Schaeffer, president and chief financial officer. So Circus leaves the high rollers to its competitors. But that strategy hasn't hurt either its performance or its reputation for tight control of overhead. —W.H.



Circus Circus' Glenn Schaeffer (left) and William Bennett; Excalibur in Las Vegas
Aggressively marketing spectacle casino/hotels for the middle class.



JAPAN AND THE UNITED STATES:
BUILDING A STRONGER ALLIANCE
FOR THE 21ST CENTURY





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Toshiba helps you keep in touch, because we keep in touch with you. Understanding that one of the last places people get any work done is in the office, we make notebook computers that give you more power than many desktops, and more freedom than you can imagine.

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A natural phenomenon is occurring at Japan's oldest and best-established bank. We've changed our name to Sakura Bank, and burst forth with even greater commitment to customers. **Service is second-nature.** We've been building partnerships with all types of business for more than 300 years. Healthy, vital, thriving. That's why we looked to the sakura cherry blossom for our new name. Japan's enduring symbol of growth and prosperity is a natural way to show what we've been doing all along. **Expert advice to help your ideas bear fruit.** We know each business is different, each customer has individual needs. Our people work closely with you to understand the specifics, and then tailor just the right mix of financial products and services. Basic instinct, backed up with years of experience. **Now flourishing worldwide,** Sakura Bank has over 100 offices in 31 countries, plus more than 600 locations in Japan (the largest domestic banking network). We're No. 3 worldwide in total assets, and a world leader in corporate and commercial banking with substantial bond issues and M&A transactions. **Sakura Bank has a natural attraction** for any business that's ready to blossom, because for us growth is simply a fact of life.



We've Changed Our Name, But Not Our Nature.



SAKURA BANK

(Formerly MITSUI TAIYO KOBE)

An Ever More Vital Relationship

With the end of the Cold War economic concerns have achieved a new preeminence as we approach the 21st century. This serves to underscore the growing importance of Japan's role in the world. For the United States, the importance of our relationship with Japan was never in question. The future challenges both nations face and the uncertainties inherent in the new world situation make it essential to preserve and expand this vital relationship.

At the Tokyo Summit in January 1992, President Bush and Prime Minister Miyazawa reaffirmed our convergence of interests and committed the United States and Japan to a truly global partnership. That means harnessing the power of our nations to the many purposes we share. Already examples of cooperation between the United States and Japan abound in areas as wide-ranging as space exploration, the provision of official assistance, the pursuit of parallel policies on political and security issues, and the improvement of the multilateral trading system.

As the world's two most powerful economies, our nations bear special responsibilities for maintaining a strong and open world trade and financial system. We need to redouble our efforts to achieve more effective coordination of macroeconomic policies among the advanced industrial

democracies. In addition, both nations must work together to harmonize our industrial structures and business practices to facilitate expanded trade and investment flows. Our respective external imbalances are growing again and need urgent attention. And we must continue to promote a rough

on their competitors in the Japanese market. If they do not, they will not be able for long to face the challenges those competitors present in other markets, including our own. Moreover, American companies can do well here. Many are. The list of success stories is long, and it is growing.



These Japanese subsidiaries of American companies are not only reaping profits, they are gaining experiences which are altering their production, design and distribution practices at home and in other markets. They are also learning that the ultimate secret of Japan's success is its attentiveness to fundamentals. Devotion to the basics — a commitment to education, constantly high levels of savings and investment, expanding research and development efforts, and a devotion to quality and performance. These were also critical to America's economic development, and we need to pay more attention to these fundamentals ourselves.

The *Forbes* supplement offers an impressive portrait of Japan and the reasons for its success. It should be read by anyone with an interest in this

equality of opportunity in each other's market through sectoral negotiations and the Structural Impediments Initiative talks.

It is frequently said that the Japanese market is one of the toughest in the world to penetrate. True, but our companies must take

fascinating nation, in its people and in the challenges it poses for us. Japan offers tremendous opportunities to American companies willing to put in the time and resources and efforts to succeed. The competitive pressures we will face in the future make such efforts a necessity.

Michael H. Armacost
United States
Ambassador to Japan

BUILDING A STRONGER ALLIANCE

FOR THE 21ST CENTURY

Relations between the U.S. and Japan are on the upswing. On the world stage, the two countries now stand more as equal partners, and strategic alliances between Japanese and American corporations are deepening.

As the world moves inexorably toward the twenty-first century, the development of technology continues to proceed at a quicker pace than man has ever before experienced. At the same time, the cost of R&D and leading-edge technology projects has risen so drastically, and the risks become so great, that even the largest corporations cannot tackle them alone.

Companies on both sides of the Pacific are finding themselves obliged to set up links with other firms around the world. Similar to R&D challenges, solutions to environmental problems also operate best at the global level in areas such as global warming and depletion of the ozone layer.

For the foregoing and other reasons, the times earnestly call for promoting greater understanding between Japan and the U.S. The following pages introduce thoughts and opinions of leaders of Japan's top corporations at the beginning of the new year.

NEC

In addition to being president of **NEC Corporation**, **Tadahiro Sekimoto** also finds the time to serve as vice chairman of the Japan Federation of Economic Organizations (*Keidanren*) and chairman of the organization's environmental committee. From these standpoints, Sekimoto tends to view economic and other problems in macro terms. "The recession is certainly real," he says, "but it will end. It doesn't alter the fact that Japan is a major economic power that must act on the global stage in a spirit of give and take."

"If anything," he reflects, "Japanese companies have learned the meaning of mutual prosperity and the need for wide-ranging cooperation. Cooperation can take place in many different areas: business, social and cultural activities, or environmental protection."

Sekimoto believes it is vital for the heads of nations and corporations to accept the fact that the world consists of heterogeneous societies. "The awareness that other people naturally have languages, customs and ideas different from one's own is bound to affect corporate strategy. Conflicts and contradictions frequently exist between nations, or between corporations from different countries. But

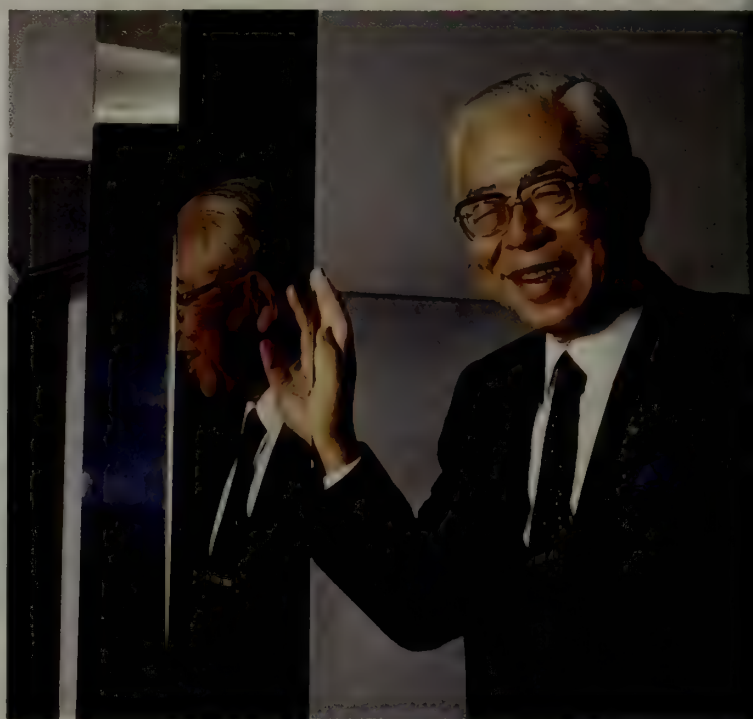
it is essential that we try to overcome differences and learn to work together for our mutual benefit."

NEC expresses its global, "holonic" business approach (which signifies maintaining the harmony of the whole while encouraging individuals to use their initiative) by stressing cooperation and competition. "It's quite natural," Sekimoto emphasizes, "for two companies from different nations to work together and complement each other. The computer industry is an excellent example. In general, Japanese companies tend to excel in developing hardware, while American prowess is in software development."

Of course, strategic alliances among companies are nothing new in international business. Sekimoto believes the modern trend is toward a global rather than an international perspective — and toward greater cooperation on larger projects.

"Given the capital investments needed and the risk involved in some highly technical projects," he

says, "it has become increasingly necessary for companies to cooperate with outstanding partners. For instance, although IBM doesn't have a supercomputer, NEC does; IBM



Tadahiro Sekimoto
NEC Corporation

has better hard disk drives than NEC. These are two areas where we can work together. We share the risk and shorten the R&D cycle to our mutual advantage."

NEC also has longstanding ties with other overseas companies. "We've worked with Hughes Corporation for many years," Sekimoto says. "NEC learned a lot from Hughes, and we've watched our relationship evolve into an equal



partnership. In fact, I think our association represents the general trend in U.S.-Japan relations toward equal treatment and equal responsibility. Joint development makes projects more productive and efficient." This is an important consideration as Japanese companies are being urged to reduce their employees' working hours.

"I don't completely agree with the current strategy of reducing working hours," Sekimoto states. "For example, the question remains whether to include 'exempt employees' when calculating the total number of working hours. Also, it is intelligence-intensive employees, such as systems engineers, who tend to do a great deal of overtime. Rather than discussing the number of working hours, I suggest the quality of work and the actual results achieved are better criteria."

Sekimoto is outspoken about environmental issues, such as conserving resources and preventing pollution. "When a country is developing industrially, it doesn't pay much attention to how its growth might be affecting society and the environment. Japan went through that stage, and after problems emerged it eventually developed some of the world's leading pollution-control technology."

"NEC originally developed pollution-control technology in order to market it: the technology was not primarily designed with our own use in mind. We profited from our water-purifying technology, for instance, but that technology also contributed toward water-pollution control in Japan."

One major change in today's business activities, notes Sekimoto, is the global scale of activities: "Corporate managers constantly need to bear in mind that it is for humanity that all their efforts are directed. That may sound somewhat idealistic, but it also makes sound business sense."

"With a global and human per-

spective," Sekimoto continues, "we must earnestly tackle environmental problems like destruction of the ozone layer and global warming. The moves toward banning the use of fluorocarbons and reducing the use of non-recyclable materials in manufacturing processes, for example, are noble initiatives."

ITOCHU

President Minoru Murofushi of ITOCHU Corporation states how his organization is evolving into a 'globally integrated corporation.' "People know us primarily as a trading company," Murofushi observes, "but it has been obvious to us for years that we have moved beyond the restrictions of that term. Today, we operate in business areas far beyond the traditional boundaries of a trading company."

He continues, "When I became president, I pledged to carry on the work of my predecessors by undertaking whatever restructuring was needed. In the latter part of the eighties, we diversified into cable- and satellite-based communications through sizable investments in International Digital Communications and JC-SAT. Now we are poised to expand into the media and entertainment industry through our recent tie-up with Time Warner."

In addition, Murofushi convened a special *ad hoc* committee in 1989-90 to study ways of revising the company's internal structure. "Out of the reform committee's studies," he recalls, "emerged a vision of ITOCHU as a world enterprise, a globally integrated company. In pursuit of this vision, ITOCHU has undergone profound structural changes and fashioned a new corporate identity. As part of the streamlining process, we have reduced the number of operating groups from nine to four, and the divisions within them from



Minoru Murofushi
ITOCHU Corporation

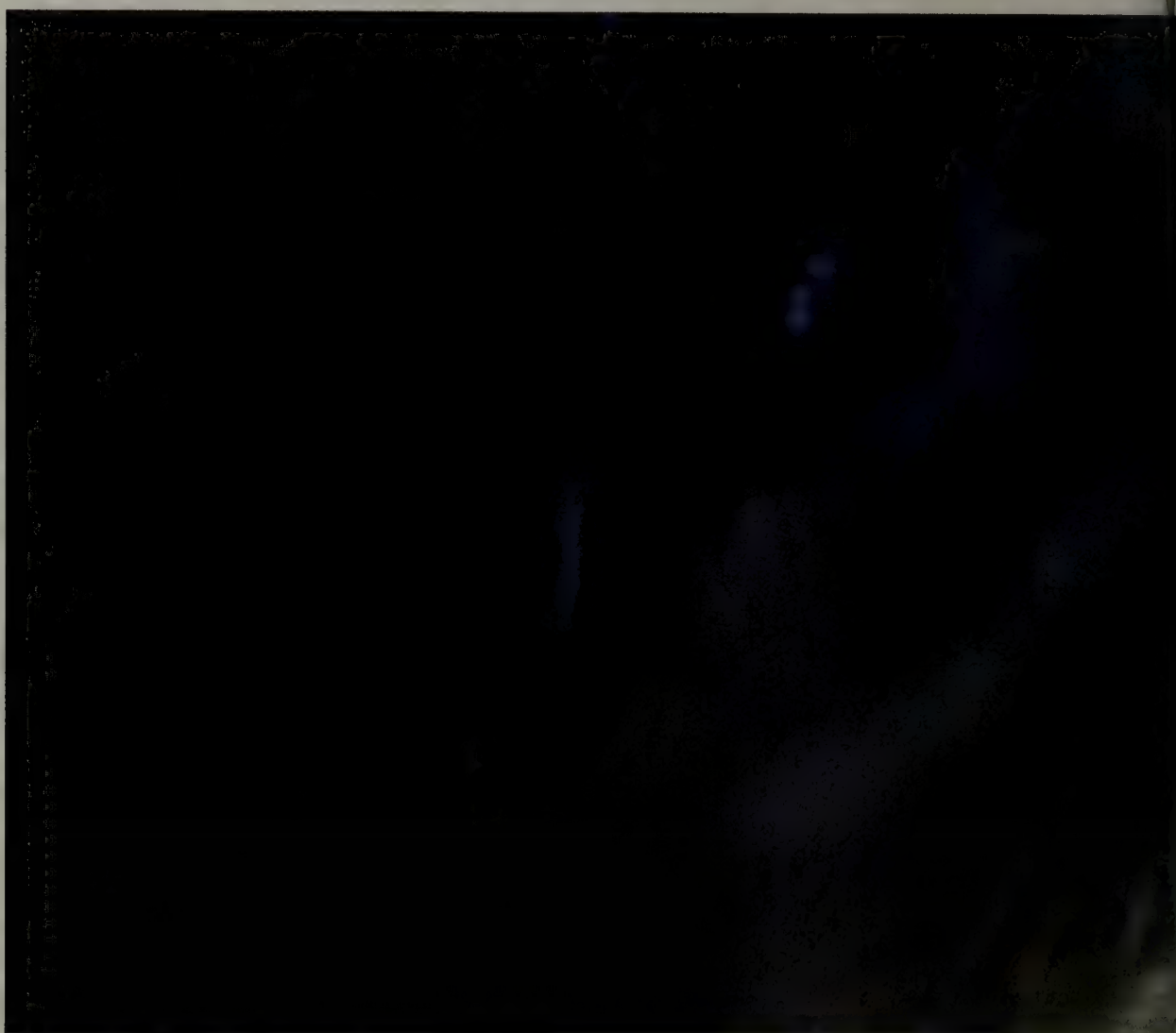
35 to 25, enabling us to realize more effectively the synergies between our various business activities."

Moreover, Murofushi firmly believes in giving the organization sufficient flexibility to respond to changes in the external environment: "Although our new structure is appropriate for today, future developments may necessitate further reform."

ITOCHU, formerly known as C. Itoh outside of Japan, has also changed its English name and corporate logo and adopted a new credo. According to Murofushi, "In our quest for global integration, we felt it was only appropriate that our Japanese and English language names became one and the same."

ITOCHU's new corporate logo symbolizes the company's future global development. "The logo is sharp and modern," notes Murofushi. "It shows the company name moving into the future as the earth moves on its endless journey through time and space."

For ITOCHU's new credo, 'Committed to the Global Good,' Murofushi wanted something fresh and easy to remember: "I wanted



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mazda

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our credo to tell the world how we are committed to providing economic, societal and individual benefits on a global scale."

To complement the corporate credo, the company also adopted three principles, known as the ITOCHU Way. As Murofushi notes, "It is important to impress upon our employees that our day-to-day business activities must be conducted with a positive 'can-do' attitude in the spirit of fairness and with an open mind."

Murofushi believes the corporate reforms of ITOCHU Corporation will also have a far-reaching effect on ITOCHU International of the U.S.: "We want ITOCHU International to become both more American and more international, expanding not only in the U.S., but also in Canada, Mexico and elsewhere. I look forward to seeing ITOCHU International transforming itself into a new corporation with new ventures, more independent from Japan."



President Tsutomu Kanai of Hitachi, Ltd. has a simple management philosophy. "In order to compete," he says, "a company must invest in more sophisticated technology than its competitors — technology that will lead to the creation of new products which will satisfy the needs of its customers."

"Even when business is slow," says Kanai, "a company needs to invest in research and development. The technology to create new products that serve customer needs is a company's lifeline. This is why our research and development expenditures currently exceed our profits."

New products from Hitachi are increasingly reflecting local market considerations, rather than the

recommendations of engineers and designers at the head office. "One of the advantages of localization," says Kanai, "is that we learn to appreciate all the subtle needs of our overseas customers and reflect them in new product development. To achieve greater customer satisfaction, it is important to have detailed knowledge of the local market. Today, our overseas plants design and manufacture products specifically for their own markets."

Kanai explains the difference between the new and the old approach to overseas production: "Until recently, the principal objectives in local production were high quality control and production efficiency. These were achieved with a great deal of support from Japan. The intention now is for these overseas production plants to become quasi-autonomous."

"Localization also helps to promote balanced trade," Kanai says. He cites the example of Hitachi's new plant in France, which produces computer disk subsystems: "We chose France for several reasons. The products we manufacture do not compete with locally made goods, our technology contributes to local industry, and while many parts initially have to be imported from Japan, we will eventually increase local procurement to support the economy there."

Hitachi is also active in expanding imports to Japan. "Imports serve two main purposes," Kanai explains. "Some we use ourselves; others we market. This also helps offset the



Tsutomu Kanai
Hitachi, Ltd.

trade imbalance."

Localization and the expansion of imports to Japan are economic activities through which Hitachi employees learn to appreciate the customs of other societies. "Many of the issues that arise between Japan and other countries," Kanai says, "are related to differences in customs and ways of thinking. Business practices vary greatly from country to country. Japan's life-employment system, for example, is unique. But as we do more business overseas, we come to appreciate the importance of local customs and learn to adapt."

In discussing cooperation with other companies, Kanai says that strategic alliances are a sign of the times: "Hitachi and the word 'technology' are synonymous. But some development projects, in which many sophisticated technologies are used, require cooperation between companies to reduce the risk, shorten development time and lessen the burden of the cost."

Kanai believes many people have the misconception that Hitachi's industrial machinery business,



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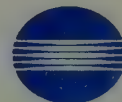
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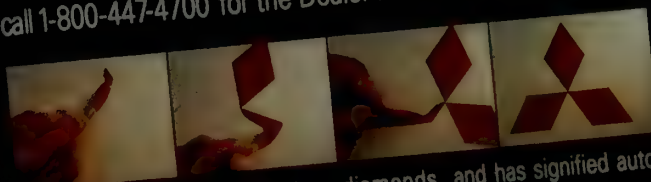
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which produces power generators, rolling stock and steel plants, is not high-tech. "Actually, nothing could be further from the truth," he emphasizes. "Trains are now being developed, for instance, that have to move at speeds up to 300kph (186mph) without producing noise pollution. This type of development requires state-of-the-art technology. The same applies to power generators, where error margins are in the thousandths. The new types of steel used in automobiles, too, need to be strong enough to protect the vehicle's occupants but sufficiently lightweight to keep fuel consumption down."

Kanai expects the domestic business environment to improve from the second half of 1993. "Additional government spending on public works will help," he says, "but we won't see any real improvement until a more positive mentality develops among consumers. Japan will suffer from the after-effects of the burst 'bubble' for quite a while yet, although the economy has probably touched bottom."

Although there are tough times ahead, Kanai says Hitachi will continue to follow his basic philosophy. "Like all companies, both Japanese and foreign, Hitachi's ultimate objective is economic growth that leads to a better way of life for people everywhere. Our way of achieving that goal is to develop quality products that satisfy the needs of customers."

RICOH

Besides being president of Ricoh Company, Limited, Hiroshi Hamada is president of the Japan Business Machine Makers Association. His comments on domestic and overseas developments in the office machine industry thus carry particular weight. Concerning

general trends in the industry, Hamada says, "We're witnessing rapid changes, both in the information-processing needs of customers and in technological advances. Among the buzzwords we hear these days are 'down-sizing,' 'networking,' 'colorization' and 'digitalization.'"

"Unfortunately, we're experiencing a global recession, and every market sector is affected, including the office automation industry," he continues. One way of coping with recessionary times is through strategic alliances. "Ties or cooperation with other companies in R&D or production," Hamada says, "become more important at times like this. In our industry, research projects and product development are becoming larger and often cannot be undertaken by a single company. That's why we are witnessing a rapid increase in the number of strategic alliances, and this is a historic new trend."

Concerning changes in the management of Japanese companies, Hamada notes, "Previously, companies emphasized volume and expanded their business fields to keep up with their competitors, imagining the grass to be greener on the other side of the corporate fence. But such thinking led to excessive competition. Companies have to understand what their customers expect of them. They should then concentrate on their strengths and form alliances with companies whose expertise can complement theirs."

Increasingly, office machines are acquiring multiple functions. "These machines generally process either code or image information," Hamada says, "but now we're seeing cross-over technology. A major trend at Ricoh is the fusion of imaging with computers through digitalization. Ricoh is a leader in image processing, and IBM is the world leader in code information processing. If we combine our leading-edge technolo-

gies, this will lead to benefits for the customers on both sides."

Hamada sees the role of office equipment changing: "I like the word 'keyboardless.' This doesn't mean keyboards won't be used in the future, but they'll be used less, and differently. Scanners will be used increasingly for inputting text and other technologies such as voice and character recognition are bound to replace simple typing tasks, allowing people to become more creative. It will also be good



Hiroshi Hamada
Ricoh Company, Ltd.

for the environment — just think of the reduction of paper that will mean."

The tie between people and information is close to one of the principles of Ricoh's management philosophy. "For many years," Hamada comments, "Ricoh emphasized the importance of the interface between people and information and machines. Now we're seeing this in concrete form."

Ricoh was the first company to link digital copiers to fax machines and computers. "Today," Hamada explains, "our digital copier is multifunctional. As a copier, it has

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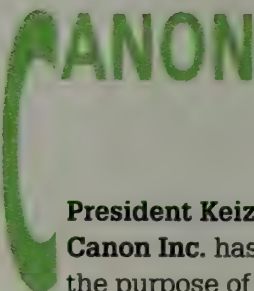
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scanning and printing functions. It also has built-in fax functions, and because the materials being copied sometimes need to be cut and pasted, it has an editing function too. A new function is the capability to read and store optical files, which contributes to the paperless office. And a prototype is already able to perform machine-assisted translation using optical artificial intelligence and character recognition."

In all aspects of its business, Ricoh emphasizes what it calls the "Three-Loves Principle": Love your neighbor, love your country and love your work. "This was our founder's principle," Hamada says, "and I think there has never been a more appropriate time than the present to practice it. All we have to do is think globally and interpret 'love your country' as 'love the earth.'"



President Keizo Yamaji of Canon Inc. has a clear vision of the purpose of Canon's activities and the company's goals. "Our corporate goals are not complicated. We simply wish to contribute toward improving people's lives and generally make the world a better place in which to live."

The realization of these hopes is directly related to Canon's business operations. "Today's world increasingly demands that corporations, regardless of nationality, find ways to cooperate with one another," Yamaji asserts. "Two companies with complementary strengths can find ways to cooperate for their mutual benefit. This trend is becoming more and more common."

Good examples of Canon's strategic alliances are its tie-ups with U.S. companies Hewlett-Packard and Eastman Kodak. "We cooperate with Hewlett-Packard in several areas," Yamaji says. "For example, we produce laser printers for Hewlett-Packard on an OEM basis, while we sell Hewlett-Packard computers in Japan. We cooperate with Eastman Kodak by supplying them with middle-speed copiers for sale in the U.S., and they supply us with high-speed copiers for sale in Japan. These are both mutually beneficial relationships."

Starting with the California plant that was built in 1971, Canon constructed a production facility in Giessen, Germany, in 1972, and a plant in Virginia in 1985. Canon has thus established a global production network.

"In the case of developing countries, Canon's production plants



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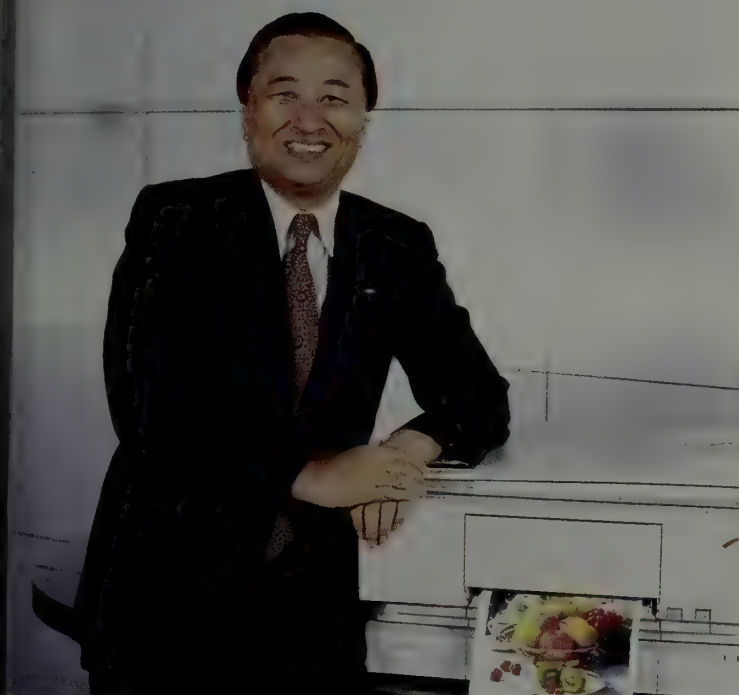
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Keizo Yamaji
Canon Inc.

create job opportunities," he says, "and earn those countries badly needed foreign currency through exports. We cooperate with our host-country partners by providing financial and technical assistance, and we benefit directly by being able to compete globally with competitively priced products."

Yamaji is convinced of the benefits of locating production facilities in developing nations such as China and Thailand. "As developing countries expand economically," he observes, "their labor force gradually begins to earn more, their standard of living rises and the countries themselves become markets for the same items they now solely export. So we are also putting our organization in a strong position for doing business with these countries in the future."

To date, Canon has set up five R&D bases in the U.S., Europe and Asia. Yamaji explains Canon's philosophy of localization as it applies to R&D: "Localization of R&D entails utilizing the best technology of that country, commercializing it locally and supplying the product world-

wide." Yamaji believes that companies today have to tackle environmental issues seriously. "We've got to take steps to protect the environment," he says. "It's not a question of choice any more." In fact, Canon is one of Japan's most environmentally aware corporations and conducts a worldwide cartridge-recycling program. This

involves the collection and recycling of used toner cartridges from Canon personal copiers and laser beam printers. "We contribute \$1.00 per cartridge collected to nature and wildlife conservation groups in the U.S. and Australia," Yamaji says. "Our recycling plan is highly appreciated."

"Our recycling plant in Dalian, China is capable of handling 200,000 cartridges per month. In 1991, Canon collected 620,000 used cartridges. The 1992 target is 1.8 million. Because of a large increase in the number of cartridges being collected, we plan to hire 2,000 more employees and raise the plant's capacity to 400,000 cartridges per month."

The company is also developing solar cells as an alternative form of clean energy. "Our solar-powered cells," Yamaji states, "will be principally for electric-power generation. Our engineers are working to make Canon's batteries generate electricity that is more efficient than other energy sources, such as oil or nuclear fusion."

Canon is also taking the initiative



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in cleaner manufacturing. "In response to increasing concern about global warming, we will abolish the use of all chlorofluorocarbons (CFCs) in manufacturing by 1993, as well as phasing out methyl-chloroform by 1994," says Yamaji. "We are also tackling the problem of glass sludge — a pollutant by-product of lens polishing — by developing technology to render it harmless after lens manufacture. Eventually, new processes now being developed will eliminate glass sludge completely."

BROTHER

According to **President Yoshihiro Yasui of Brother Industries, Ltd.**, the key concept in managing his company is "domain." He says, "Whether we are thinking about investing our human, financial or material resources domestically or overseas, whether in technology, marketing, hardware or software development, we are careful to stay within our business domain."

Brother's business domain is well defined by its Imaging and Fashion (I&F) concept. "I&F is the primary concept underlying our vision for the coming century," Yasui says. "It's also the concept that supports our overall corporate stance for doing business at home and abroad. Whatever new business we undertake, whatever new product we develop, it's related either to imaging or fashion."

Brother's joint venture in the karaoke field, dubbed Joysound, is a good example of using advanced technology to enter a new business area in the imaging domain. Begun in October, Joysound is a multimedia network service based on integrated services digital network (ISDN) communications that provides digitized music notes to karaoke terminals. The terminals

can hold up to 10,000 songs.

"Karaoke needed a technological shot in the arm," Yasui says, "and we worked jointly with Intec Corporation, using its ISDN networking, to develop a new concept that is revolutionizing karaoke. Joysound reduces the space needed for karaoke equipment to 1/30th of what it was and shortens the time needed for delivering new song titles from three months to one week."

Another Brother alliance based on ISDN is Takeru, a software vending system. "For marketing the Takeru service," Yasui says, "we work closely with personal computer retailers. Program data stored in a host computer are transmitted on demand via an ISDN network to vending terminals in the PC stores."

Among other new imaging products is a professional labeling machine, the P-Touch XL, introduced at the 1992 Summer Olympics in Barcelona. Brother has been an official Olympic sponsor company since the 1984 Los Angeles Games.

"The P-Touch XL labeling machines caused a minor ruckus at Barcelona," Yasui recalls. "Word got out that we were printing athletes' names on laminated adhesive tape free of charge. Soon, long lines of athletes and spectators formed at our booth to have their names printed. That's where I enjoyed meeting many of the world's top athletes."

About business in general, Yasui says Brother is doing well in parts of Asia and in the United States. "We



Yoshihiro Yasui
Brother Industries, Ltd.

have been in the U.S. for almost 40 years. Nowadays, we not only manufacture products for the American market in the U.S., but also export them to Latin American countries and worldwide through our offices in Miami and Bartlett, Tennessee. To reinforce our business, we established a wholly owned sales subsidiary in Mexico this year."

Brother has a solid foundation in manufacturing hardware. But Yasui realizes that without software, its word processors and other hardware are just empty boxes. "Brother develops some of its own software," Yasui says, "and also imports some. For instance, we procure English dictionaries for our word processors from American software houses."

Other hardware requiring software support includes computerized home sewing machines. "Brother's P's sewing system," Yasui explains, "is designed to automatically create clothing patterns. The customer simply selects a design, size and fabric and the system prints the design onto the fabric."

Yasui likes to talk about how U.S.

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dealers handle Brother's industrial sewing machines. "American dealers view our industrial sewing machines differently from their Japanese counterparts," he says. "They take a value-added software approach to our machines by modifying them to meet more closely the needs of their customers. We cooperate with them technically and in other ways."

As part of its corporate social-responsibility program, Brother supports a range of international sports and cultural activities. "Brother continues to sponsor the International Contest for Young Fashion Creators," Yasui says. "The contest celebrated its 10th anniversary last year."

Outside the office, Yasui plays no particular sport to keep fit. "Sure, I play golf and go for walks," he says, "but I find that turning my mind to non-business matters is the best way for me to relax and reduce stress."

NIPPON STEEL

President Hiroshi Saito of Nippon Steel Corporation was recently elected chairman of the International Iron and Steel Institute (IISI) for the second time in five years. "The IISI is a unique organization," Saito explains. "It was founded in 1967 and was the first international organization made up of members from a single industry, coming together to resolve common problems on a global basis. Today, its members represent 125 companies and 39 organizations from 46 countries."

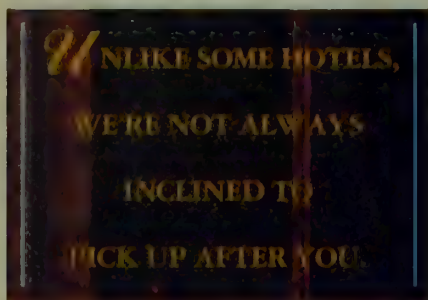
In many ways, the IISI is an organization that was created ahead of its time. "It wasn't so obvious at its inception," Saito reflects, "but



Hiroshi Saito
Nippon Steel Corporation

there are many problems facing the world that can't be resolved by a single corporation, or even a single nation. The need for cooperation at the corporate and national levels is more vital than ever in some areas." The environment is one such area that particularly concerns Nippon Steel. Japanese steel companies have quite advanced technology in the areas of pollution control and energy conservation, and Nippon Steel is no exception.

Regarding energy conservation, Saito refers specifically to the company's growing integration of production processes, encompassing important technology that is increasingly utilized overseas. "One example," he explains, "is an R&D project we undertook for the continuous casting of steel strip that eliminates the usual hot-rolling process. This innovative technology represents tremendous energy savings, which can be computed into cost savings, and it did not lead to any sacrifice of product quality." Nippon Steel's joint ventures with Inland Steel are excellent examples of the successful transfer of steel technology.



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We're committed to producing some of the most technologically advanced products in the world. But we feel an equal responsibility to create a healthy business environment and have a positive impact in our own local communities.

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Furthermore, Nippon Steel's innovative research and engineering activities are set to influence the steel industry worldwide. "No other steelmaker in the world has R&D facilities as advanced as ours," he says. "One visitor from the steel industry made an observation I'll always remember. After touring our R&D Center, he said although he was convinced that Nippon Steel was a strong competitor, he could relax knowing that the future of the world steel industry was assured."

Concerning the global economy, Saito stresses that, among the G7 nations, only Japan has a surplus trade balance. "In my opinion," he says, "Japan, as such, holds the key to global economic recovery, and must make certain that government and industry efforts to stimulate domestic consumption succeed."

Nippon Steel is one of Japan's foremost companies currently tackling environmental issues. "Evidence of how we care about the environment is everywhere," Saito says. "With all our 10 domestic steel plants, you can walk right by them and not see the buildings because of the green belt areas we've planted outside. The area we've set aside for greenery around our plants totals over 7 million m²." He adds, "Even the trees we plant reflect our concern for the local environment. We don't just plant trees that we think look nice: we seek the advice of experts and plant trees and shrubbery which support the local ecological systems."

It is this concerned, detailed approach to environmental preservation by Nippon Steel that distinguishes it from others in the industry. Current Nippon Steel R&D encompasses various technologies, involving waste-heat recovery, reuse systems, scrap recycling and energy-efficient steelmaking. Such innovations are the result of this concerned global corporate citizen's enlightened attitude — an attitude that is setting the pace for even greater success in the twenty-first century.

MATSUSHITA

President Akio Tanii of **Matsushita Electric Industrial Co., Ltd.** is reorienting his company's thinking toward higher value-added management practices. He says: "Matsushita's basic philosophy concerns what we call human-oriented electronics: we make and deliver user-friendly products that give customers total satisfaction. That philosophy hasn't changed. However, because the worldwide business environment has deteriorated, we are now looking more closely at our management practices and adjusting them to fit the new realities."

Until fairly recently, manufacturers of consumer goods competed to get as many new products as possible to the market quickly. "For years, companies offered consumers a wide range of products — and even a choice of models of the same product," Tanii says. "That's what consumers wanted, so everything sold. Competition was intense and we had to keep up or lose out."

"Now, it's back to emphasizing the basic functions of products. Consumers today want value for money. They avoid expensive items, unless they can see a special value in them. For example, our rice cookers usually sell for around ¥20,000 in Japan; yet a new series of induction-heating rice cookers

that retail for over ¥50,000 passed the million mark in sales in four years. Their selling point is better-tasting rice."

In a sense, it was manufacturers who made the decisions in the past, but consumers who make them today. "To emphasize our customer care," says Tanii, "we conducted a customer-satisfaction drive for three months last fall, which involved some 500 of our middle-level manag-



Akio Tanii
Matsushita Electric Industrial Co., Ltd.

ers visiting 10 million households to ask whether the consumers were satisfied with their home appliances, whether they had problems or questions, and if Matsushita could help them in any way."

When it comes to customer satisfaction, Matsushita makes no distinction between domestic and overseas markets, as Tanii explains: "We emphasize quality and profitability in all markets through high-value-added products. This move toward high-value-added products and greater profitability will increase our productivity. That is important for several reasons, such as making up for the reduction in the total number of hours our



Interactive. Multimedia. Virtual reality. Buzzwords expressing the very cutting edge of technology today. Unfortunately, most applications for most people seem more likely to occur tomorrow. SEGA, however, is one company that's finding some very real uses today for this technology that promises to define our future. Both inside and outside the home.

incorporating music and video. Working with Sony, we are developing interactive cinematic CD-ROM software that makes the viewer part of a movie.

SEGA continues to experience phenomenal growth in all areas of our business. We attribute this success to maintaining a vision of tomorrow, while practically applying technology that makes it a reality today.



employees work a year. We expect to reduce that figure to 1,800 hours by March 1994."

Japan's long working hours have been widely criticized by other countries. "In April 1992, we started a new policy regarding working hours and paid holidays," Tanii says. "Our employees now have 23 days of paid vacation a year on top of national and company holidays, but as of April this year they will get 10 or 20 additional days off, depending on how long they've been with the company. Also, beginning in April 1993, our regular working day will be shortened from eight hours to seven hours and 45 minutes."

To adapt to changes in the international business situation, Matsushita has directed its group companies to draw up plans for contributing to the success of the company's global business partnership program. "Matsushita Electric," Tanii says, "stresses industrial collaboration with companies around the world and increased imports from overseas affiliates and other companies."

"Our overseas affiliates, meanwhile, will expand their local procurement of parts and materials," Tanii says. "And in a related move, while about 48% of our total sales are accounted for by overseas sales, of which 35% are sales of items produced overseas, we want to increase that figure, so that those items will make up 50% of our overseas sales."

With regard to the environment, Matsushita is well known for having one of Japan's most comprehensive global environmental control policies. The present policies, according to Tanii, were established for the operating units of the Matsushita Group to assist them in becoming aware of the social responsibility of the enterprise to prevent environmental pollution and protect the global environment. "The recognition of the importance of environmental resources is a goal of the

Matsushita Group," Tanii explains. "We have 300 employees in Japan and 200 overseas who are responsible for ensuring that their divisions comply with our policies for preventing pollution and protecting the environment."

YAMAICHI

Atsuo Miki, who assumed his duties as president of **Yamaichi Securities Co., Ltd.** last June, sees one of his most important tasks to be that of steering his company through the present worldwide recession: "Of the many markets where Yamaichi is currently active, none are more attractive than those in Asia. The European markets, for example, are mature and sophisticated, but they don't offer the growth potential of Asia. It is often said that the twenty-first century will be the Asian century, but there are no guarantees of early returns. It's necessary to have a long-term Asian perspective and strategy."

Asia, however, is a vast continent of enormous diversity, and so Miki believes it is impossible to formulate an all-encompassing strategy for the entire region: "The countries of Asia have very different cultures and languages, but what they do have in common is the strong wish for a brighter future and healthier, happier lives for their people. Although they have achieved great economic success, they now realize there are limits to their growth if they don't open up their capital and money markets."

From the mid-1980s, many Asian countries began to come round to the idea of making their financial markets more internationally accessible. "The Hong Kong and Singapore markets opened up early on, and they'll continue to develop," Miki predicts. "But markets in countries like Indonesia, South



Atsuo Miki
Yamaichi Securities Co., Ltd.

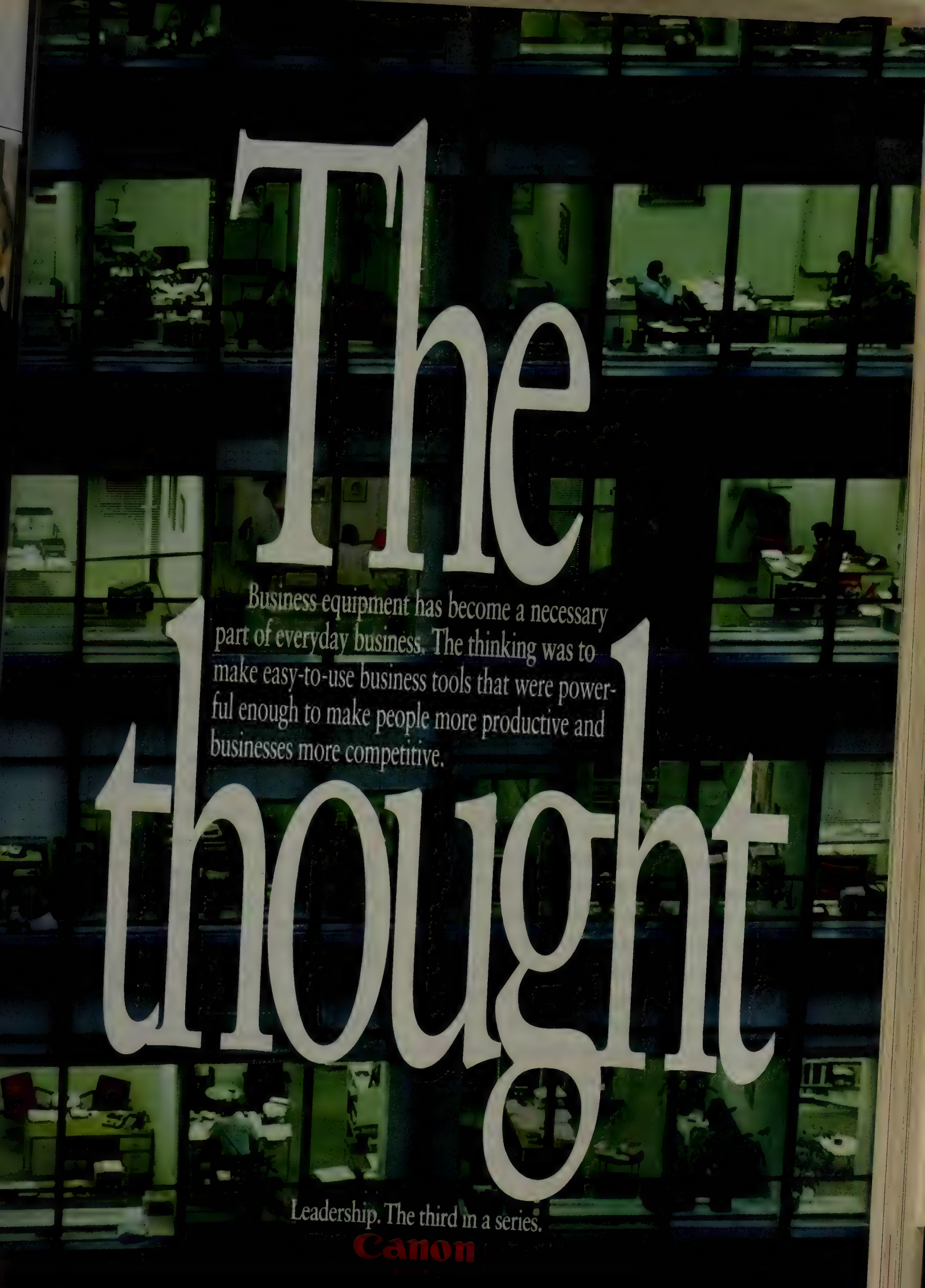
Korea, Thailand and China are only beginning to allow the participation of foreign investors. Efforts must be made to nurture these markets until they can function normally and be linked to other markets within the region and elsewhere."

Miki emphasizes the need for patience, perseverance and cooperation to prepare a foundation for healthy Asian capital and money markets: "At Yamaichi, we stress three important factors that we feel are prerequisites when conducting business in Asia — timing, location and personal relations. Developing good personal relations, especially with distinguished business partners, is absolutely critical."

Yamaichi's principal successes have been in Indonesia and China. "We have a seven-party joint venture in Indonesia called PT Asian Development Securities (ADS)," Miki explains. "ADS is a member of the Jakarta Stock Exchange and participates as well in the OTC market. Last March, ADS was also licensed to manage investment funds."

Miki comments on developments in the Chinese money market:

Continued on S-30



The

Business equipment has become a necessary part of everyday business. The thinking was to make easy-to-use business tools that were powerful enough to make people more productive and businesses more competitive.

thought

Leadership. The third in a series.

Canon

The execution was innovative

We started by researching the productivity needs of the business community. The results were innovative technologies which fulfilled those needs. Our efforts were focused on improvements to existing business products, and then progressed to our creating entirely new product categories as well. This is why today Canon is the number one business choice for copiers, color copiers and plain paper facsimiles.

One of the earliest problems our research and development engineers tackled was the need for businesses to have better looking copies. As a company with a long history of expertise in optics,

it came as no surprise that our research team developed new ways to insure unsurpassed copy quality. The New

The Canon FAX-L775. It's everything you've come to expect from Canon. A plain paper fax with superior imaging technologies for unmatched text and graphic reproduction, and higher-volume productivity.

Process (NP) system, which incorporated our Toner Projection Development System, was one of the first steps in creating our innovative NP line of copiers to provide crisp, clear copies. But we quickly realized that copy quality was only one part of the improvements businesses needed. The next goal was to insure that our high-volume copying systems were reliable, efficient and easy to use, too. A goal that has been perfected in The Corporate Line of high-volume NP Copiers from Canon.

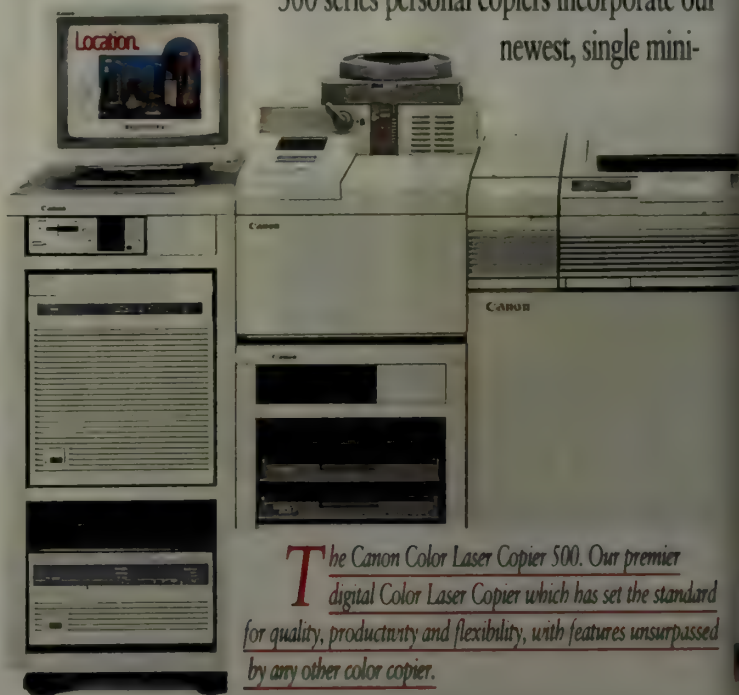
To ensure The Corporate Line copiers stay up and running, we utilize our patented Amorphous Silicon Drum. This Canon innovation can last more than twice as long as conventional copier drums, based on copy volume, so scheduled maintenance goes down. And since productivity is just as important as reliability, The Corporate Line also has incredibly fast first copy speeds so short runs are more efficient, and offers the largest paper capacities in the industry, so users will spend less time at the copier and more time working. You can find all these innovative features in The Corporate Line copying systems, featuring the NP 6060 and the NP 9800. It's breakthroughs like these which have helped make Canon copiers the number one choice for the last ten years.

Our engineers didn't stop with just improving high-volume copy systems, they also improved our best selling line of personal copiers. For years Canon

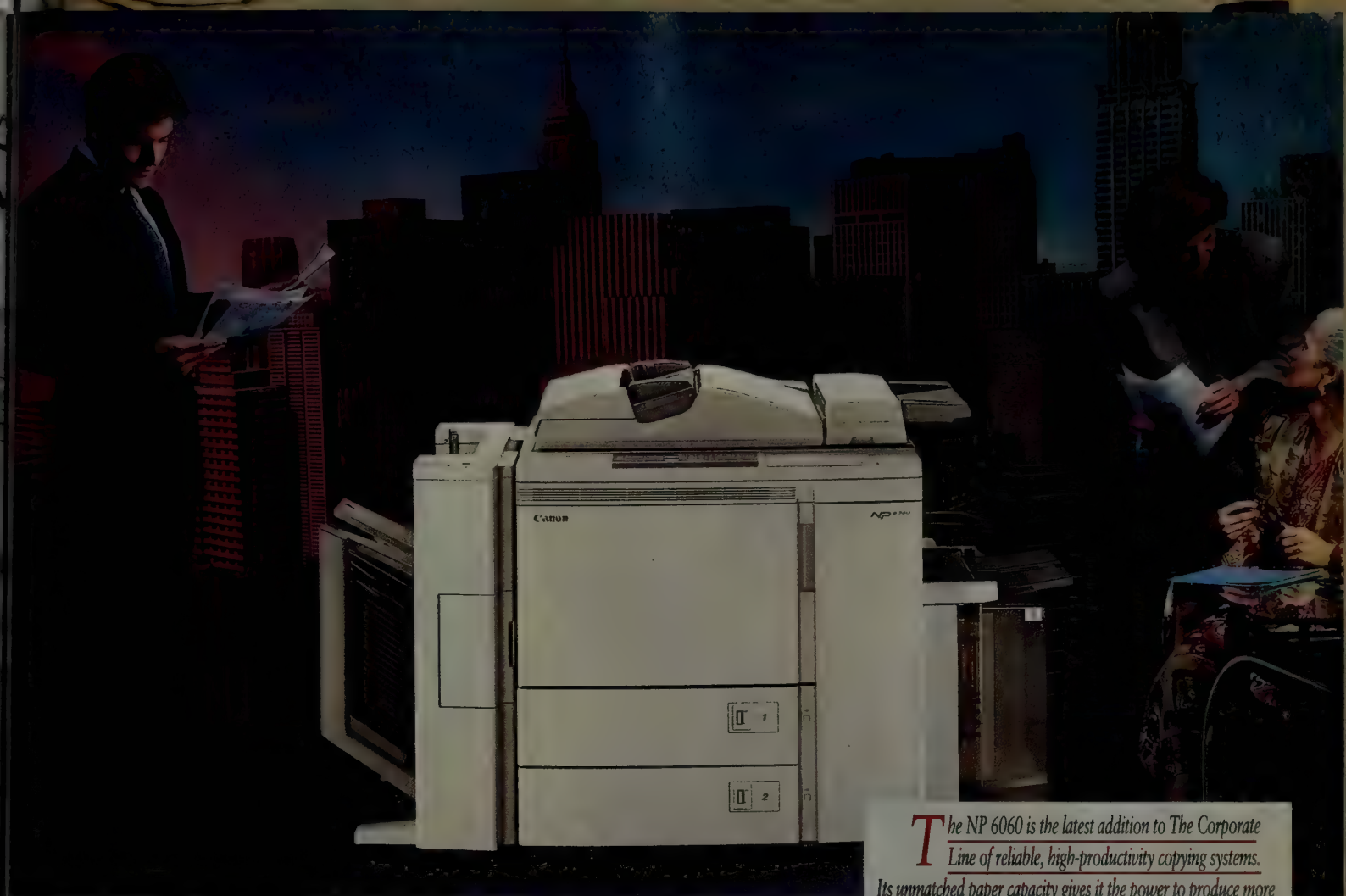
The Canon PC 330 personal copier. The PC 330L (for copying up to legal-size) features our most advanced single-cartridge system, requires no warm-up time and can even turn itself off when you forget to.

recognized the growing number of people working in their home offices or small businesses. These people had very unique needs. They needed high-quality, low-volume copiers that were extremely reliable, easy to use and compact in size. The breakthrough invention was the patented Canon single-cartridge system. In this system, our engineers found a way to put everything that could run out or wear out — the toner, developer unit and copier drum — in one easy-to-replace cartridge. This single innovation made Canon personal copiers virtually maintenance free, since changing a cartridge practically gives you a brand new copier. But of course, we just couldn't leave well enough alone. Our latest

300 series personal copiers incorporate our newest, single mini-



The Canon Color Laser Copier 500. Our premier digital Color Laser Copier which has set the standard for quality, productivity and flexibility, with features unsurpassed by any other color copier.



The NP 6060 is the latest addition to The Corporate Line of reliable, high-productivity copying systems. Its unmatched paper capacity gives it the power to produce more copies than any other copier in its class, so you don't have to interrupt large copying projects.

tridge that's approximately 25 percent smaller and makes more high-quality copies. It's the reason our PC 300 series line of personal copiers are smaller and lighter than ever before. And the reason why Canon personal copiers will continue to be the number one brand for years to come.

With the growing popularity of facsimile machines in businesses across the country, came also the desire to send and receive better looking faxes. So Canon engineers set their sights on raising the standards for faxes, too. Our R&D experts looked at various innovations from other Canon products to see if these technologies could be applied to new fax products. Combining unrelated breakthroughs, such as the replaceable cartridge system from our personal copiers, and laser beam printing from our desktop printers, we created the foundation for our Laser

Class plain paper facsimiles. We also invented the Canon UHQ fax imaging technology, which markedly improved image transmission, assuring that graphics, text and photos are sent with more depth and clarity than ever before. What's more, our Hyper-Smoothing enhances your incoming faxes, so even poor quality images are improved. All of these features can be found in our latest Canon FAX-L775. It produces among the highest fax image res-

olutions possible on cut-sheet plain paper.

The FAX-L775, just another reason why Canon Fax machines have been the number one selling plain paper facsimiles for three years running.

When Canon engineers dedicated themselves to bringing high-quality color to business, color copying was relatively primitive. Canon Color Laser Copiers brought color copying into the next century, by producing full-color copies with picture-like clarity and crisp, black text. What's more, they used our Digital Image Processing System to give users the ability to manipulate images. And options were developed which can connect both the Color Laser Copier 300 and 500 to virtually any color imaging source from computers to video. Canon Color Laser Copiers immediately became the number one industry choice, and they remain the standard by which all other color copiers are judged.

Canon's technological leadership. It started with a thought and turned into products that became the market leaders. We call these the products of enlightened thinking. After trying them, you'll see why Canon is the number one source for office automation. For more information call 1-800-OK-CANON (For personal copiers 1-800-4321-HOP).

Canon

Continued from S-26

"We are proud of our achievements there. China is moving toward privatization and has opened stock exchanges in Shanghai and Shenzhen. The exchanges are still very basic, but they mark an important step forward for the opening of China's securities market. Beijing will continue to be China's political center, while Shanghai will become the financial hub of the country."

"These two exchanges trade A- and B-shares," Miki continues. "Foreign investors can only trade B-shares, and Yamaichi became the first Japanese brokerage authorized to trade them on the Shanghai exchange. There are still only nine B-shares traded on each of the two exchanges, but that authorization was a tremendous breakthrough for us. Not long after, we became the authorized underwriter for placing the B-shares of China First Pencil Co., Ltd."

Yamaichi also supports the Chinese securities market outside Japan. Miki points out, "Yamaichi was the lead manager in underwriting Samurai bonds for the Shanghai International Trust Company. The company was also co-lead manager in listing the \$100-million J.F. China Region Fund on the NYSE."

AKENAKA

President Toichi Takenaka is the 17th-generation head of **Takenaka Corporation** — a corporation that was founded by a seventeenth-century master carpenter in Nagoya. In fact, Takenaka is one of the world's oldest construction companies.

"Our company has a long, colorful history," Takenaka observes, "but from the beginning it offered a range of services from planning to maintenance and management. We provide the same service today, but call it the Integrated Design & Construction System."

Worth ¥83 trillion in 1991, Japan's construction industry is the biggest in the world. Although Takenaka Corp. is Japan's fourth-largest construction company in sales volume, comparison with other firms can be misleading. "Architectural-engineering projects account for 99% of our orders. A subsidiary handles our civil engineering projects, so we don't include them in our business results."

Although Takenaka has completed many large industrial, educational, cultural and recreational construction projects, it prefers to build, own and maintain properties — both in Japan and overseas. Three examples are the Hyatt Regency Kauai resort and spa on Hawaii's Kauai Island, the 37-story Crystal Tower Building in Osaka and the 25-story Hotel Nikko in San Francisco.

The company operates in 16 overseas nations, principally in North America, Europe and Southeast Asia. "We have been fortunate in teaming up with outstanding overseas subcontractors that provide the quality labor we demand," Takenaka notes.

Training is a priority for Takenaka Corp. "We emphasize the training and education of employees in our overseas offices," Takenaka observes. "Some key personnel are sent to Japan to study for up to a year, and we regularly invite 10 employees a year to Japan for two weeks' training. We also arrange visits to ongoing projects and to our offices, as well as sightseeing trips to historic places like Kyoto."

Takenaka is particularly interested in environmental issues: "I'm chairman this year of the Building Constructors Society. One current goal set by the member companies is to reduce the use of tropical wood for concrete forms at construction sites by 35% within five years' time. Construction companies will use either metal or soft wood from cultivated forests, rather than from natural or tropical forests."

The industry is also reducing



Toichi Takenaka
Takenaka Corporation

excess packaging and inventory storage. "We are working with suppliers to reduce or eliminate completely the packaging materials used when delivering materials to construction sites. We're also asking for just-in-time deliveries. This avoids the need for inventories, which helps us keep our construction sites clean and orderly. Besides reducing costs, such steps also contribute to improved safety.

"Another important environmental area is intelligent buildings. We use energy-efficient systems in those buildings, such as the vapor crystal system, which produces ice slush during off-peak hours when electricity rates are lowest. The slush releases cool temperatures during the day and provides efficient air-conditioning at a lower running cost."

Takenaka Corp.'s dream is to construct a new generation of skyscrapers. "Our architects have conceptualized a series of 1,000-meter-tall buildings called Sky City 1000," he explains. "Although this may still be a dream, it is not so far-fetched if you recall that the Sears Tower in Chicago is 443 meters tall.



Symbiosis:ism

Symbiosis is one of the natural world's truly beautiful systems. In reality, this principle of dynamic natural relationships exists not only among plants and animals; it also applies to animals and humans, humans and humans, companies and companies, companies and the environment, humans and the earth. It is this very relationship, expressed by the term "Symbiosis:ism", that is our goal for bringing about better business global partnerships. Through both free competition and harmony, based on a spirit of mutual benefit and trust, Nippon Steel will continue to make these interactions more productive and fruitful for our lives.

NIPPON STEEL

GLOBAL CONNECTIONS



Yamaichi helps clients to maximize their financial potentials worldwide, with everything from diversified investment to international debt and equity financing.

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four or five Sky City 1000 buildings would encompass all the functions in Minato Ward, one of Tokyo's largest wards. The area now occupied by other buildings would be turned into parks and other green belts."

TOSHIBA

One of the newest corporate "faces" in Japan is **President Fumio Sato of Toshiba Corporation**, who assumed his position early last summer. Like his company, Sato says his basic commitment is to people and to the future. His approach is direct and positive: "I like to tell people clearly what I'm going to do, then do it."

Sato is an engineer, like the presidents of many major Japanese manufacturing companies. What makes him a particularly appropriate choice to head Toshiba during this critical juncture is his strong background in four areas: production control, quality control, environmental protection and improvement of productivity.

"The changes taking place in the world, such as the integration of Western Europe, the transition pains experienced by Eastern European countries and the slowdown of the U.S. economy suggest a worldwide shift to a period of low economic growth." Toshiba emphasizes two principal points in adjusting its business to global-change, localization and international cooperation.

Sato says, "Moving nonessential products from one country to another is wasteful. In overseas projects, there are usually some components that need to be obtained from Japan, but our basic thinking is to produce and procure where the markets are located. We are therefore stepping up production in the U.S. and southeast Asia. As the market becomes increasingly globalized, we are focusing more on the efficient use of locally available

resources through cooperative relationships, which also helps avoid trade frictions.

"Toshiba provides both managerial and technological transfers in countries where we have production facilities," Sato adds, "We are especially proud of our quality control (QC) activities and how they contribute toward waste prevention. One way we promote QC is through an international competition held annually in Japan. Around 15 QC teams are invited from Europe, North America and Southeast Asia."

Sato himself inaugurated the competition five years ago. "It's a prestigious international event," he explains, "and the overseas teams bring with them the finest projects completed by more than 5,000 employees."

According to Sato, Toshiba had been cooperating with overseas companies many years before such associations became fashionable. "Now everyone is doing it because the cost of high-tech R&D projects — involving, for example, what we call 'fused' technology — has ballooned to such an extent that it is beyond the financial capabilities of a single company. We share the risks involved in projects with other leading firms."

Cooperation with prominent partners shortens the time needed to pursue new business opportunities and makes better use of human and material resources. One example is Toshiba's investment in Time Warner. "Japan produces outstanding hardware," Sato says,

"but is often behind in audiovisual software development. The partnership with Time Warner gives us greater software capabilities, in the form of access to existing TV programs and movies, which in turn enhances our hardware business."

Companies today often compete



Fumio Sato
Toshiba Corporation

in one area and cooperate in another. "GE of the U.S. is a competitor for us in some areas," Sato says, "but we also cooperate with it. For instance, we observed that many Japanese who return home after living in the U.S. want to buy large U.S. refrigerators, so we began to sell and service GE refrigerators in Japan. We are seeing many opportunities for new business alliances of this kind."

With his specialized knowledge, Sato believes industry must resolve environmental problems to ensure future world economic growth. "We are keen to take the lead in this area. Toshiba is currently reviewing its internal environmental-control systems. We are also assigning full-time specialists to study environmental problems and propose solutions."

New Brother Fax Machines Offer Breakthrough Technology And Value For The Home / Office

FOR THOSE OF US who think we've "seen it all" when it comes to fax machines, there's a new line of affordable units from Brother called the ACS™ IntelliFax® Series that bears some serious looking into.

Thanks to a wide array of features—most notably the already proven ACS—an exclusive Anti-Curl System that produces flat easy to read faxes with standard (thermal) fax paper, and the new ThermaPlus™ thermal fax paper, these Brother IntelliFax units go a long way towards giving users high level fax power and convenience—without the high price.

The ThermaPlus paper—which is included with every IntelliFax model, is one of the major features that sets the Brother IntelliFax units apart. Unlike conventional thermal fax papers, (which these machines are also compatible with), ThermaPlus feels like plain paper. You can even write on it with a pen or highlighter. It also reduces print fading, thus making it ideal for filing purposes. The

company describes ThermaPlus as "Looks and feels like plain paper,"

and as thousands of amazed and very satisfied users will attest to, their description is 100% on the money.

Thanks to the combination of ACS and ThermaPlus, users can enjoy the benefits of plain paper fax machines without having to pay their high price.

Because of the wide array of features offered by the Brother IntelliFax lineup—including

auto cutters, feeders, memory dialers, sleek ergonomic styling, fax/tel switches and more, there is a model priced to fit virtually every type of customer—and need.

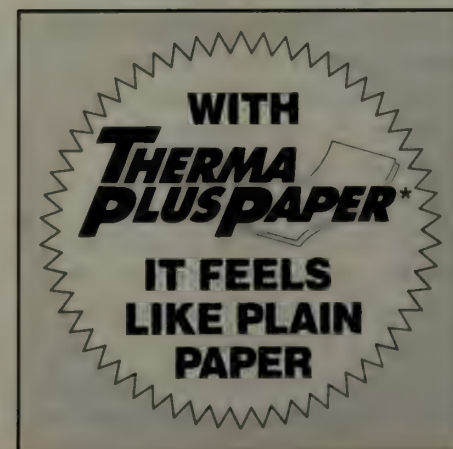
While fax machines are as common in today's business environment as the telephone and copier, many analysts believe the office is only the tip of the iceberg. The home user—having already seen the benefits of fax in the workplace, quickly realizes the advantages of having one in their office at home. Besides its primary use as a facsimile, it can also be used as a phone, personal copier and inter-

acted to your telephone answering machine.

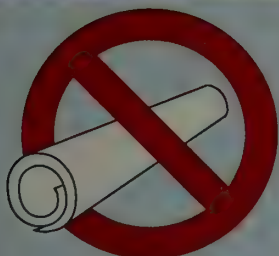
Steve Giblin, Home Office buyer for J&R Music World—one of the country's leading home/office & electronics retailers, says "the IntelliFax units have been doing phenomenal at retail, thanks in large part to their combination of features and value."

"We recommend Brother IntelliFax with ACS because it's so salable" says Mr. Giblin. "Feature for feature they offer consumers a lower price and higher quality. In addition, our managers are amazed by how much the ThermaPlus paper benefit means to the customer."

In today's highly conservative electronics retail marketplace, an endorsement like that shows that if you really know the "fax," the Brother IntelliFax Series is simply the smart choice.



3 FACTS WHY YOU SHOULD BUY OUR FAX



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Eliminates annoying curling problems. Makes incoming documents easier to read, stack, copy and file.

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**IT FEELS
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It looks and feels like plain paper. Easy to write on with pen or highlighter. There's no curling, and reduces print fading for longer filing life. A roll is included with every Brother IntelliFax.

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"Our approach to the environment is comprehensive. Besides looking at ways to reduce waste products created during the production process, we are also studying how end-users use our products so that we can introduce changes from the earliest design stages to make our products more environment-friendly."

As a Fourth Level Master of *shogi* (Japanese chess), Sato is accustomed to contemplating strategies. "It is sometimes useful to compare certain business situations to particular moves in *shogi*."

MINOLTA

"Some business people relate managing a company to playing golf," says

President Hideo Tashima of Minolta Camera Co., Ltd., "but I think of golf purely as a game. Of course, certain aspects of the game could be applied to business — like the sportsmanship and perseverance required — but such comparisons can go too far. There is nothing in golf that really compares with the risks managers take in business, especially in manufacturing. Whether golfing or managing," Tashima adds, "I've learned to face situations squarely and solve problems one at a time."

Tashima explains the origins of the Minolta name. "My father, the company founder Kazuo Tashima, used Minolta as a brand name before it became the name of the company. Our company's first plant was located outside Kobe and was surrounded by rice fields, which are called *ta* in Japanese. *Ta* is also the first character in my family name.

"One day, my father noticed rice plants in a local field bending under the weight of the ripe grain. The Japanese word for plants ripening in this way is *minoru*, and the sight of the rice plants humbly bowing as if

in appreciation for their abundance made a powerful impression on my father. He combined *minoru* with *ta* to create 'Minolta' — a combination of gratitude toward our customers and hope for the prosperity of the Tashima family."

Besides its concern for business prosperity, Minolta is also particularly conscious of the need for environmental protection. The company encourages its employ-

ees to relate their everyday work activities to the well-being of the environment. This can be seen in the way the company uses paper. "We strive to teach our employees to conserve paper," Tashima says, "by explaining that it helps to preserve the world's forests." As a result, there has been a company-wide reduction in Minolta's paper consumption.

"As one of the ways in which the company promotes the environmental awareness of all Minolta employees," Tashima continues, "we published a booklet this June which contains a seven-point 'Minolta Environment Policy' as well as a quiz so that each employee can check his or her environmental consciousness. This company publication has been well received by the employees, their families and even people outside the company."

Recently, the Minolta Environmental Committee, which took a leading part in the booklet's publication, also completed concrete guidelines to follow up the initial steps expressed in the policy and aims to establish fundamental systems to



Hideo Tashima
Minolta Camera Co., Ltd.

promote effective and responsible environmental activities throughout the Minolta group all over the world.

"Our principal environmental interests today," Tashima adds, "involve conservation of natural resources, use of recyclable raw materials and suppression of harmful emissions. We are using more environment-friendly packaging materials such as cardboard, rather than non-combustible plastic. Some of our efforts, however, are almost invisible: although we formerly discarded plastic carrying cases for parts and plastic stacking pallets sent overseas, we now return them to Japan for reuse."

Minolta also uses an ecology mark, which consists of an image of the earth wreathed in young leaves and bears the words: "Clean the Earth."

"We use the ecology mark," Tashima explains, "to express our concern for the environment." As a global corporate citizen, Minolta will continue to do whatever it can to protect the environment for the people of today and for future generations.

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- Pittsburgh
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- Akron
- Cincinnati
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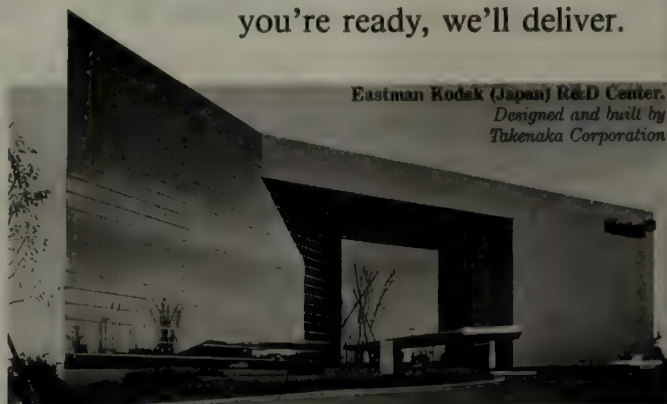


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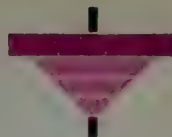
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What about the future? Tashima states: "We are transforming Minolta into a different company. A new managerial philosophy and fresh vision will reorient our employees about Minolta's direction, while emphasizing new growth in high-tech areas other than cameras and copiers.

"Rather than being dependent on mass sales, we plan to move into high value-added areas where we can use our optical technology, such as advanced electronics. Minolta is integrating its domestic and overseas production, sales and distribution facilities for greater efficiency, while strengthening overseas production.

"Finally, we are paying closer attention to helping resolve trade frictions and Japan's unequal trade balance with some countries. We have set ourselves the challenge of making a positive contribution to international society from a truly global perspective."

SHISEIDO

Although **Shiseido Company, Ltd.**, headed by **President and CEO Yoshiharu Fukuhara**, is Japan's largest cosmetics company — and one of the largest in the world — with sales of \$4.1 billion in fiscal 1992, it began 120 years ago as Japan's first Western pharmacy. Founded by Fukuhara's grandfather, Shiseido was incorporated as a stock company in 1927. Fukuhara has been in charge of the company since 1987.

"Shiseido is undoubtedly a cosmetics maker," Fukuhara says, "but because of our beginnings in pharmaceuticals, we have much more extensive R&D facilities than others in the industry. Our new corporate slogan, 'The science of beauty and well-being,' expresses our commitment to science."

The name "Shiseido" could be

interpreted as "Praise the virtues of the earth, which nurtures new life and brings forth value." Says Fukuhara, "Value in life can be achieved only through the sustained harmony of mind, body and soul." The history and culture of the company are very important to Fukuhara: "Like your family name, the name and origin of your company are very significant."

"When I was appointed," Fukuhara says, "I was determined to analyze our origins and success, examine the social significance of our cumulative expertise and see if reforms were needed. I wanted Shiseido to go back to basics, and from there I formulated a grand design to prepare us for the twenty-first century. It had to be a realistic dream. Reality without ideals is possible in the business world, but not ideals without reality."

Fukuhara also wants Shiseido to be a company that cares for its employees and for society, and he emphasizes the need for close internal communications: "I want our people to express and develop themselves as human beings. Too often, employees become over-zealous and feel their commitments to the company taking precedence over obligations to their families and society. I tell our people that I want them to maintain a healthy balance between work, family and social contribution.

"My grand design is a statement of the role Shiseido will play in the twenty-first century. It emphasizes scientific excellence, diversification and customer satisfaction. In line with my grand design objectives, I have been trying to build a new group of professionals dedicated to realizing these ambitious goals."

Shiseido's new corporate slogan stresses both the scientific and humanistic facets of the company.

"Many people think of Shiseido as a 'scientific' company because of our origin and extensive R&D programs. We use science to improve the

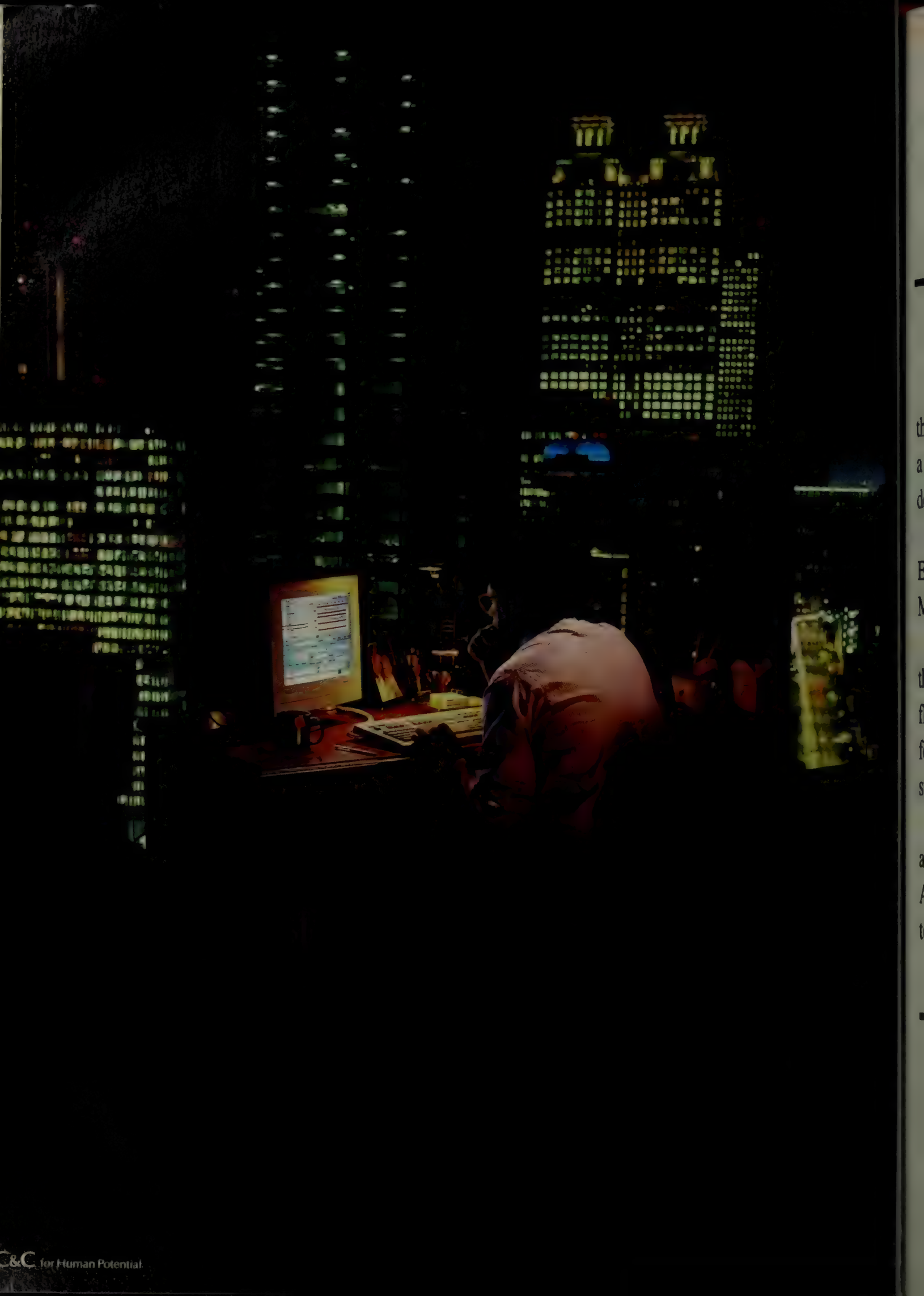


Yoshiharu Fukuhara
Shiseido Company, Ltd.

quality of life for the enhancement of overall well-being."

Though head of a "scientific" company, Fukuhara has many artistic inclinations. His love for the arts has led Shiseido to support many cultural activities. Fukuhara is president of the Association for Corporate Support of the Arts, and his company dedicates space to the Shiseido Gallery in Tokyo's Ginza. Since 1919, over 3,000 budding artists have been allowed free use of the gallery to hold shows. As president of the All Japan Orchid Society, he is also one of the country's leading authorities on orchids and has five new varieties registered by the Royal Horticultural Society of England. In addition, he is a professional-class photographer and has published an authoritative photographic collection on orchids.

Fukuhara believes his interest in orchids helps keep him mentally and physically healthy: "It's important to relax and shift your thinking away from business once in a while." He adds with a smile, "Often, growing orchids teaches me how to run the company."



9:27 PM

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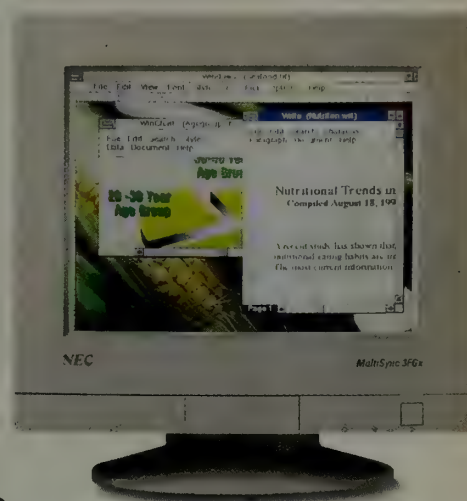
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MITSUBISHI ELECTRIC

President Takashi Kitaoka of Mitsubishi Electric

Corporation assumed office in June 1992. He is the first president of a major electrical industries company in Japan to have emerged from the semiconductor division. "I was totally surprised when I heard of my appointment," Kitaoka says, "because business in the semiconductor division was in a



Takashi Kitaoka
Mitsubishi Electric Corporation

slump. But perhaps the experience of coping with difficult business situations will help me in my new position."

Kitaoka is no stranger to hard times. Born in early 1931, during the Great Depression, he entered Mitsubishi Electric in 1955, when Japan was in the middle of a severe recession following the end of the Korean War. Since then, he has found himself facing a recession every time he won important company appointments. Kitaoka, however, is a born optimist: "All past recessions came to an end, and so will this one. Besides, I don't

view the present situation as a real slump. Our sales haven't decreased, but our fixed costs have gone up because we expected better profits, and those profits weren't realized."

For Mitsubishi Electric, Kitaoka believes, globalization is an important key to improved business. "Our globalization," he explains, "started in the late 1960s, with exports. We exported to obtain foreign currency because Japan's domestic market wasn't big enough to support the growth."

As products from Japan reached higher quality levels, they began selling almost too well, and problems emerged in overseas markets. "That led to the second stage of globalization, the overseas siting of production facilities," Kitaoka notes. "We went to the countries where the markets were located, created employment opportunities and contributed to the various national economies. That helped to reduce some of the trade frictions."

Nevertheless, Japan's trade balance continued to record huge surpluses each year, and Mitsubishi Electric took new steps to draw closer to the overseas communities where it was doing business. "We began opening sales offices and R&D centers in other countries," Kitaoka says. "In addition to making and selling products in the United States, we also had Americans designing them there for Americans to use. Our most recently established R&D center is Mitsubishi Electric Research Laboratories, Inc. in Cambridge, Massachusetts."

At the present time, Mitsubishi Electric's important phase of corporate development involves globalization and localization. "Our interest lies not just in local procurement of components, but with the fusion of our company and its affiliates into the very heart of local communities. Examples of how we blend into a community are usually low-key. We sponsor the exchange of drawings between Japanese and American schoolchildren. In Thailand, we provide scholarships to needy college

students, and we also occasionally invite musicians from countries in Asia and Africa to perform in Japan."

One highly acclaimed project is the Mitsubishi Electric America Foundation, founded jointly by Mitsubishi Electric Corporation and its U.S. subsidiaries. "This foundation's endowment," Kitaoka says, "will reach \$15 million by 1996. Its sole aim is to assist young Americans with disabilities to lead fuller, more productive lives through education and other means."

Another important area of activities for Mitsubishi Electric relates to strategic alliances. "We've promoted ties with overseas companies for many years," Kitaoka says. "The focus today is on sharing the risk in huge or highly technical projects. One of these major projects involves putting an observation platform into space to monitor pollution of the oceans and global warming."

KIKKOMAN

"Japan-U.S. relations are improving," says **Executive Managing Director Yuzaburo Mogi of Kikkoman Corporation**. As a representative of the Japan Association of Corporate Executives, Mogi recently attended a meeting of the U.S. Committee for Economic Development. "Most of the American business people taking part in panel discussions at the meeting saw Japan-U.S. relations recovering," Mogi observes. Although this is an encouraging trend, he stresses it is still important to prevent negative tendencies from developing. "It doesn't help Japan-U.S. relations if Japanese continue to believe, for example, that American cars are poorly made — or if Americans believe that Japan's markets are closed. The truth lies somewhere in between, and people need to be constantly reminded of this. It would be helpful if the media dissem-



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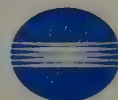
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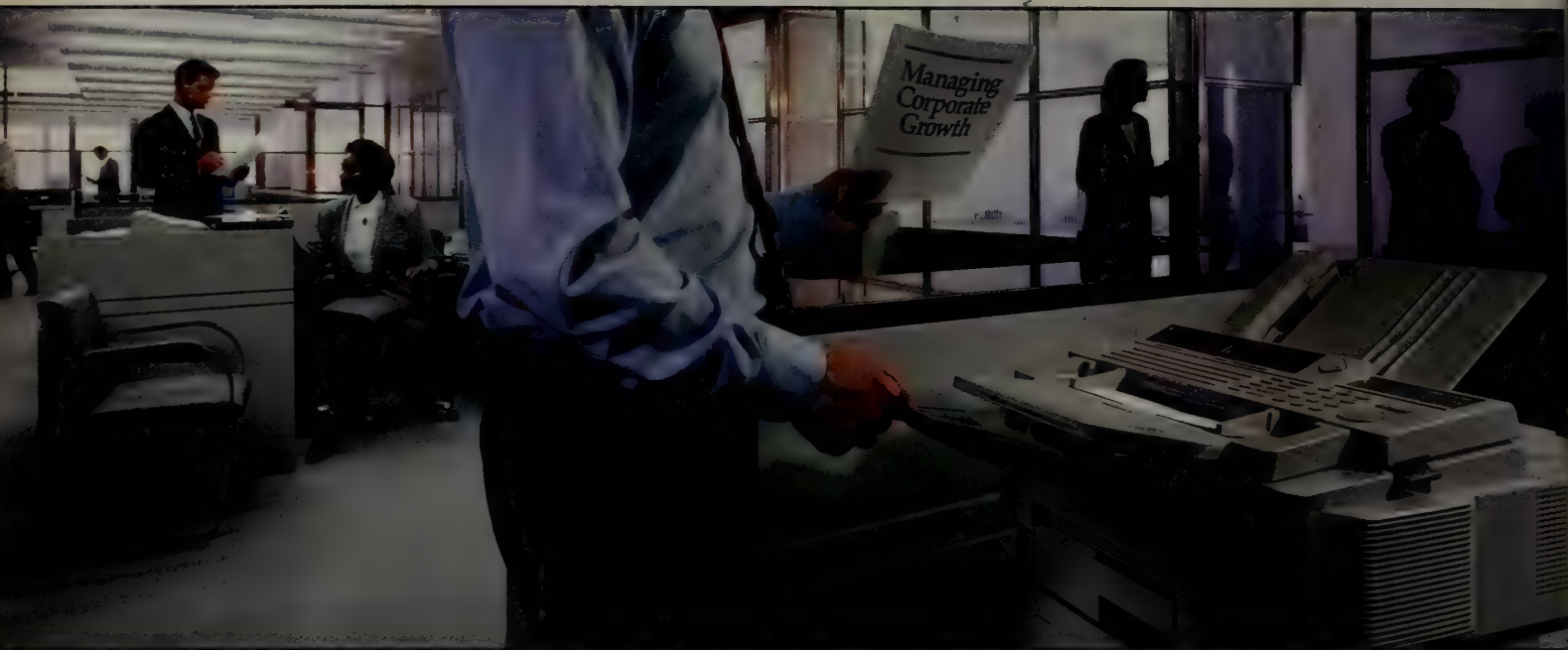


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Yuzaburo Mogi
Kikkoman Corporation

ated more reliable information."

In the U.S., Kikkoman continues to expand its highly automated soy sauce plant in Walworth, Wisconsin to meet the growing demand from U.S., Canadian and Mexican markets. Soy sauce products made at Walworth account for about 75% of Kikkoman's total overseas sales. The plant's relative proximity to Chicago also makes it an ideal distributing base.

Mogi was designated an "honorary ambassador" by the state of Wisconsin a few years ago for his outstanding contributions to Japan-U.S. relations through Kikkoman's business and cultural activities in the state. He is proud of Kikkoman's U.S. work force: "The work and education standards of our U.S. employees are very high," he says. "Without such a stable and supportive work force, Kikkoman would never have been successful in the U.S."

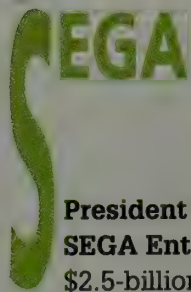
When it comes to the ups and downs of business, Mogi is philosophical: "Economic conditions don't generally affect our business much. When an economy is doing very well, sales of food tend not to rise as rapidly as those of other products. Conversely, food

sales don't tend to decline as much as other products in a recession. We usually remain stable in all situations."

In Japan, the bursting of the economic "bubble" has coincided with a cyclical recession to create an extraordinarily bleak economic situation. "Companies are offering less overtime and using fewer part-time workers. As a result, many employees have less disposable income; they are eating out less and cooking at home more," Mogi explains. "While sales of soy sauce and other food products to the more expensive restaurants have fallen in Japan, household sales are up."

Regarding the Del Monte product line, Kikkoman's Singapore subsidiary assumed sales responsibilities last summer. That marked the end of a sales-transition period from Del Monte, and Kikkoman is moving to develop and market its own products.

A promising new area of business for the company is biotechnology. "We produce enzymes, diagnostic reagents and biologically active substances," Mogi explains. "We believe biotechnology will be one of the biggest business fields in the twenty-first century."



President Hayao Nakayama of SEGA Enterprises manages a \$2.5-billion corporation that is fast becoming an integrated entertainment company using advanced technology. "Until fairly recently," he says, "our business in Japan and overseas mainly involved developing and selling game software and hardware. Sega's primary business area was consumer products and amusement machines, including the operation of arcade game centers.

"However, since about 1988," Nakayama continues, "we began to upgrade our amusement centers. The content of the games and machines didn't change so much, but we made the places bright

er and generally more entertaining. In a sense, we added a software twist to our hardware. We also plan to develop a new concept called the 'amusement theme park' for using advanced computer graphics (CG) and virtual reality (VR) technology in games." According to Nakayama, Sega's amusement theme parks will be about 1/10 the size of facilities such as Disneyland, but 10 times the size of ordinary amusement centers. Sega has plans to build a network of these parks around the world.

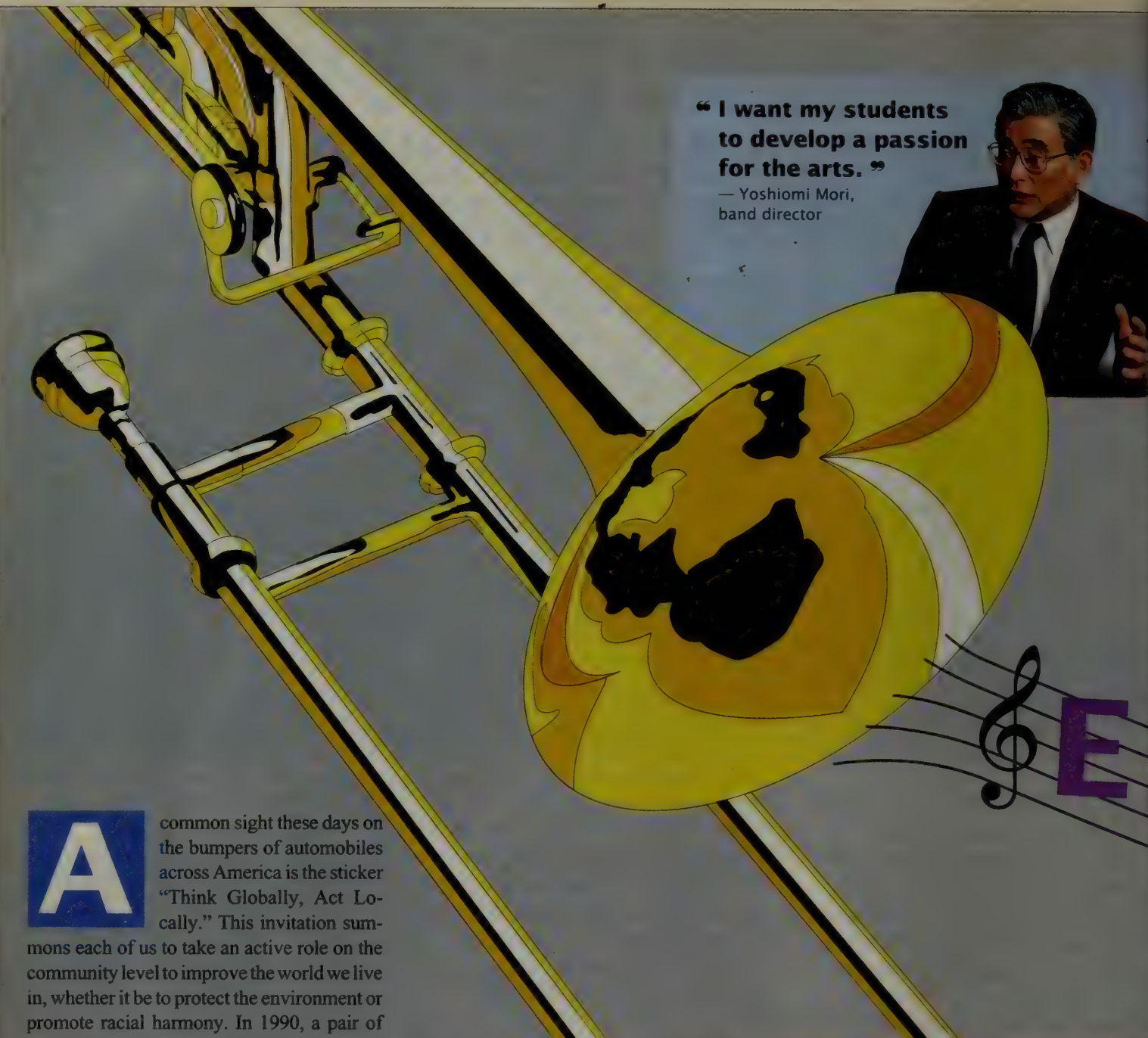
Concerning VR technology, Nakayama comments: "VR is extremely attractive because it provides the real-time experience of being in a totally different, simulated environment. It has been available for some time, but was too expensive for commercial use. Originally, it was used exclusively in flight simulators, with each unit costing the defense industry and airlines



Hayao Nakayama
SEGA Enterprises, Ltd.

hundreds of thousands of dollars."

As Sega was struggling with the problem of how to make its games more realistic, General Electric in the U.S. was searching for a way to commercialize its VR-related CG technology. "It was pure coincidence,"



**"I want my students
to develop a passion
for the arts."**

— Yoshiomi Mori,
band director



A common sight these days on the bumpers of automobiles across America is the sticker "Think Globally, Act Locally." This invitation summons each of us to take an active role on the community level to improve the world we live in, whether it be to protect the environment or promote racial harmony. In 1990, a pair of small towns in Japan and the United States responded to this challenge, initiating an exchange based on a love for the Big Band sound.

It all started in Clarinda, Iowa — heartland of America and birthplace of Glenn Miller. In tribute to the late band leader and trombonist, Clarinda has hosted the Glenn Miller Festival every summer since 1976, attracting Glenn Miller fans from around the globe, as well as the best Big Band entertainers in the nation. And no festival will ever be as memorable as in 1990, when in front of standing-room only crowds, the Tamana Girls High School Band from southern Japan brought down the house with a spectacular performance. The first time that a foreign ensemble had participated in the history of the festival, the show by the all-girls' band from the island of Kyushu marked the culmination of four years of planning to unite two rural towns through music.



Tamana Girls High School Band performs at the Glenn Miller Festival in Clarinda, Iowa.

Ardent Glenn Miller fan since his youth and member of the Glenn Miller Birthplace Society, Hideomi Aoki of Tokyo provided the initial impetus for the project. At his first Glenn Miller Festival in 1986, Aoki was so impressed by the hospitality of the citizens of Clarinda (pop. 5,500) that he wanted to find some way to show his gratitude, and he struck on the idea of inviting a band of young people from Japan to perform at the annual gathering.

Aoki searched high and low throughout Japan in search of a top-notch high school band. He was finally tipped off to Tamana Girls High School, located in rural Kumamoto Prefecture. Rare enough is an all-girls' symphonic band, let alone one that has taken first prize in prefectural competition eight years in a row, plus a bronze medal at the national level. Band director Yoshiomi Mori, teacher at the high school and a fellow Glenn Miller enthusiast, jumped at the offer. Not only would his students have the opportunity to hear some of the best Big Band musicians in the world, they would also get firsthand exposure to the

students a chance to learn about life in America, and local citizens the opportunity to find out a little bit about Japan. As Clarinda and Tamana are both rural agricultural towns, information about the other country mainly comes through the media; all involved in the program felt it was an invaluable experience meeting the other side firsthand. Unlike the trade friction and negative publicity that often mar current Japanese-American relations, local citizens gave the band from Tamana an all-American

welcome, opening their hearts and homes to the group.

Even townspeople who didn't have the chance to host the young performers got a taste of Japan—as well as an earful of outstanding Glenn Miller music—at the two concerts performed by the

band during the Glenn Miller Festival. For both concerts, the 550-seat high school auditorium was filled to capacity. Tears flowed on stage and off at the end of the second concert on

For the Japanese band members involved in the Glenn Miller Festival exchange, the experience will have a lifetime impact. One student decided to enter a foreign studies university after returning from America, explaining, "When I was in Clarinda, I discovered that I have two more means of communication: English and music. I'd like to put both of these to work in other cultural exchanges in the future." Other band members commented on the American volunteer spirit, clearly impressed that every year local citizens donate their time and energy to organize the Glenn Miller Festival. These girls hope to see this attitude toward volunteer work take root in Japan.

Relations like the one between Tamana and Clarinda have been spreading like wildfire, showing an evolution from the original one-year student exchanges to more specific, community-level programs



Tamana band members:
broadened horizons

Swings West

Two Rural Towns Strike up a Rich Relationship through Musical Exchange

American people and culture—a chance not often available to the youth in this small agricultural community.

The Road to Clarinda Paved with Challenges

Concerns still remained, especially regarding housing. In a town Clarinda's size, hotel accommodations were impossible; where would the 72-member band and their chaperones stay? And more importantly, how would small-town Midwesterners react to a sudden influx of 100 Japanese?

Residents of Clarinda sprung to action, displaying the same generosity that had astonished Aoki on his first stay in town. 35 local families volunteered to host the students and chaperones—for both the girls of Tamana High School and local residents, the most enjoyable part of the exchange. The home stay experience can also be viewed as the most valuable aspect of the trip, giving the Japanese

One Small Step in the Right Direction

Although the Japanese group returned to Tamana shortly after the end of the festival, relations with Clarinda blossomed. In 1991, one student from Clarinda High School spent two months with a host family in Tamana, after which three Japanese students returned for a one-year exchange program in Clarinda. As for Aoki, the moving force behind the original exchange project, opportunities for other cross-cultural programs abound. "I never expected my love for Big Band music to lead to something like this. I'm convinced that the best way to improve international relations is for people to share their common interests on a person-to-person level."

which can branch out over time. It is encouraging to see the enthusiasm of local citizens as they explore these new and creative means of promoting cross-cultural understanding. Such local programs are playing a key role in developing appreciation for the cultural differences between the United States and Japan.

The next step? It's now time to build on these successes, focusing on the quality rather than the quantity of exchanges. Over the next decade, communities in our two nations need to become partners rather than hosts to one another, working together to achieve common goals. The signs are promising, with projects that unite communities on both sides of the Pacific already in full swing—for example, raising funds to aid developing countries. By pooling resources and encouraging citizens to share ideas, talents and, most importantly, our unique and valuable cultural heritages, the results are sure to be nothing short of spectacular.

Nakayama says, "that GE and Sega should meet at such an opportune time. It was a perfect match: GE had advanced CG technology, including texture mapping, and we had the capability to incorporate that technology into inexpensive boards to give it a commercial base. We decided to work together last summer. Now, instead of VR technology being used in a small number of expensive simulators, it's being used in a large number of inexpensive games."

One great advantage of using VR in amusement theme parks is its flexibility: it is possible with VR to change games or attractions easily and at a

modest cost. The large theme parks are simply unable to do that: their rides and other attractions are inflexible and prohibitively expensive to change.

Multimedia is another new area into which Sega is moving. "The basic hardware for multimedia," Nakayama says, "is the CD-ROM, which up to now hasn't received the exposure it deserves. And it's going to be the game industry that will provide the impetus for realizing the true potential of CD-ROMs."

Sega introduced its American customers to game-use CD-ROMs in time for the Christmas market late last year. "We set the pace by launching the Sega CD, a 16-bit CD-

ROM player, in the U.S. last November. It connects with our 16-bit Genesis home-use game machine. Customers using the CD-ROM player enjoy a much clearer image and high-quality stereo sound."

"As the Sega CD demonstrates, one of Sega's corporate missions is to provide users worldwide with inexpensive, top-quality games," says Nakayama. "Our success is tied to satisfying those requirements. The advanced technology we use in our games is certainly expensive to develop, but by selling a large number of units, we can keep the price down and earn enough to support our R&D into next-generation technology."

MITSUBISHI MOTOR SALES OF AMERICA

President Kazue Naganuma of Mitsubishi Motor Sales of America, Inc. (MMSA) describes his company as a U.S. corporation funded by a Japanese company. He explains: "Our parent company is Mitsubishi Motors Corporation (MMC), and our relationship with it determines the scope of our activities in the United States. We are MMC's importer and distributor in the U.S., and also distribute imports from Hyundai Motors in Korea and Mitsubishi Motor Sales of Australia. However, our largest supplier is Diamond Star Motors Corporation (DSM), owned by MMC and located in Normal, Illinois. Half of DSM's annual output of 240,000 units goes to Chrysler, and half comes to us. Altogether, we distribute 200,000 to 220,000 units a year."

Naganuma continues: "MMSA does business every day in the context of American customs and social values. In that sense, we Japanese staff play an important buffer role: we experience firsthand some of the cultural and other differences between Japan and the U.S. Through face-to-face communication with the American staff, we analyze and evaluate our differences and merge the best Japanese business practices with the best American business practices."

Japanese U.S. subsidiaries are making their overseas operations more "localized," and MMSA is no exception. One of MMSA's important tasks is to further "Americanize" itself. "We are applying Affirmative Action to every aspect of our



Kazue Naganuma
Mitsubishi Motor Sales of America, Inc.

business," Naganuma says, "to adopt American ways and fuse with American society. One way we do this is by advising our employees of supervisory and management openings, and promoting from within the organization whenever possible. Evidently, we're doing something right because in 10 years of business, we have had almost zero turnover among our American executives." MMSA's Americanization efforts can also be seen in its education and training programs, and its policy of ensuring fair treatment of all employees.

MMSA also has a system whereby a Japanese assistant is assigned to key American executives. "By requiring each American executive and his Japanese assistant to discuss and concur on an important business issue before recommending it to MMSA upper management and MMC, we can avoid misunderstandings and inefficiencies. This ensures that

the proposal is correct in the American cultural and business context and has a good chance of being approved by MMSA's upper management and by MMC. If concurrence is not reached, then upper American and Japanese managers settle the issue. This method works wonders in our bicultural situation."

An area of particular concern at MMSA is customer satisfaction (CS). "We have one of the finest CS programs in the industry. Our Respect Program, for example, recognizes sales and service personnel and parts managers for outstanding CS performance with awards and even paid vacations."

MMSA also places priority on local procurement, environmental protection and traffic safety. "MMC has a substantial system for procuring American-made parts and components," Naganuma says. "Regarding environmental action, it is the responsibility of our manufacturers to improve engine emission levels, fuel economy and product safety, and we also do much on our own initiative, including an internal task force that recycles about 100,000 pounds of paper a year."

"Traffic safety is a special social concern of ours, too," Naganuma says, "and we do everything we can to promote it. We donate cars to school driver programs, for example, and support organizations like Mothers Against Drunk Driving and the Network of Employers for Traffic Safety."

Forbes

Nihonban

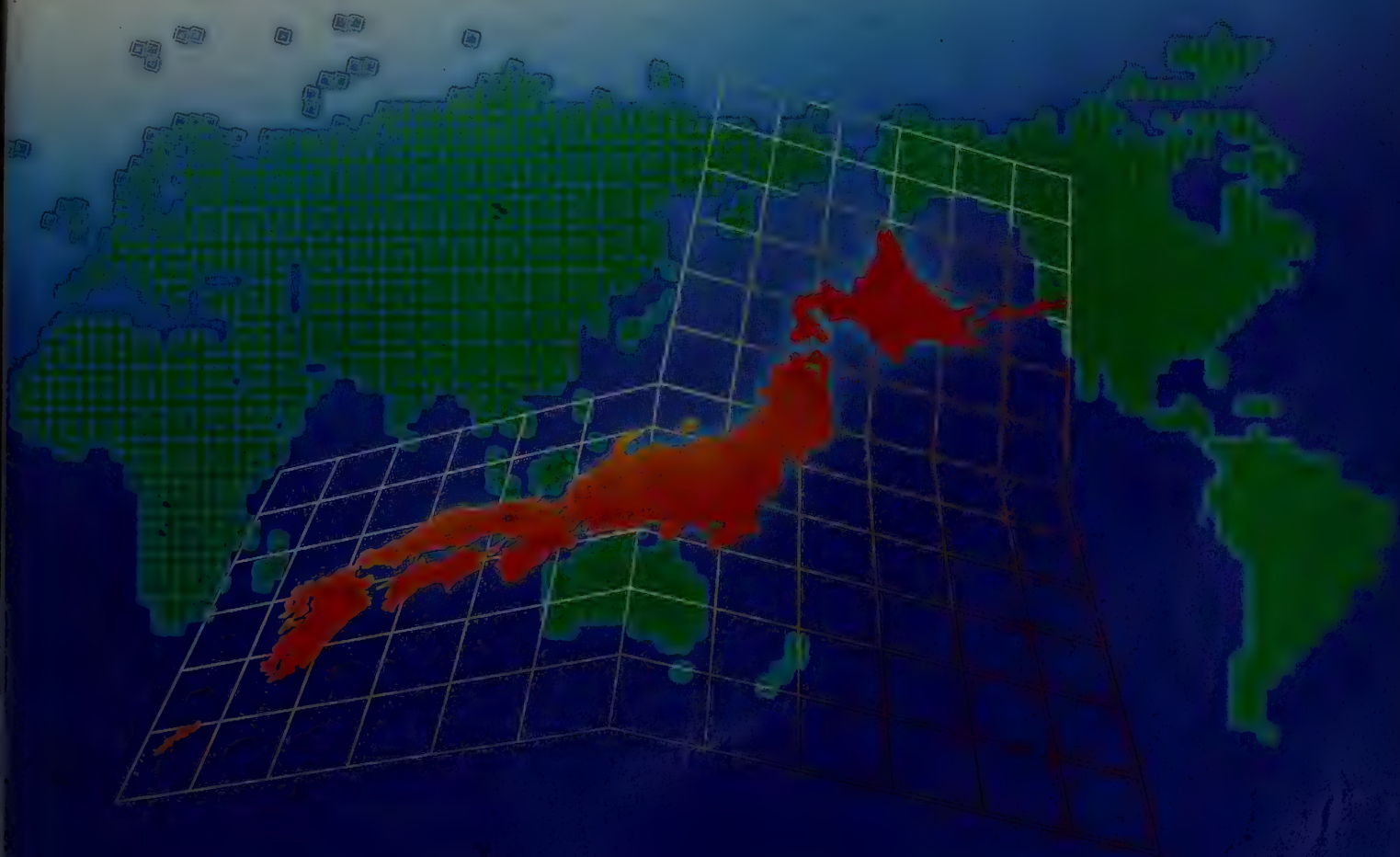
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GYOSEI

President Otoyasu Fujisawa heads **Gyosei Corporation**, one of Japan's most successful publishing houses. For most of the 100 years since its founding, Gyosei has specialized in legal publishing. Recently, however, it has diversified into other areas. The launch of *Forbes Nihonban* (the Japanese edition of *Forbes* magazine) in March 1992 is one of these new moves.

"Gyosei and Forbes have a great



Otoyasu Fujisawa
Gyosei Corporation

deal in common," says Fujisawa, "as both are family-held and have long histories — 175 years between us. Also, family companies are generally able to make quicker decisions."

Fujisawa believes Gyosei's joint venture with Forbes in business magazine publishing has made an excellent start. "Six months after we launched the magazine, we have 100,000 subscribers and substantial newsstand sales. We are very ambitious — our aim is to surpass even *Forbes*' circulation in the U.S.," says Fujisawa.

"We have a sound base for growth," says Fujisawa, "a base we have built up over a century. To give you some idea, you will find our 110-volume set of legal books in most libraries, universities and government offices throughout Japan. It is used extensively by lawyers, administrators and business people. It is directly distributed to thousands of government and other organizations by our sales force of over 1,000. It is also updated on a regular basis."

Gyosei's estimated sales for fiscal 1992 are ¥55 billion (about \$450 million). In addition to a host of magazines, Gyosei now has over 5,000 book titles, including quite a few children's books, and adds about 500 new titles each year. "The legal publishing business is stable," remarks Fujisawa, "but it is not a high-growth area, so we have to look for new opportunities. One new direction we are following is international business. Our editors go to the Frankfurt Book Fair every year to find books we can publish in Japanese.

"Another direction we are following is putting Gyosei at the forefront of high technology and helping our clients benefit from the latest technical innovations," says Fujisawa. "Today, Gyosei is highly computerized. We have started on-line database services and publish CD-ROMs. We help 3,300 central and local government offices and other organizations become more efficient in information retrieval and processing through development, sales and leasing of various computer software products."

One of Fujisawa's favorite sayings is 'Early to bed and early to rise.' "For me, it epitomizes the ideal way of living," says Fujisawa, who believes in frugality and avoids excess. "Don't you think it's natural for people who love their jobs to work hard and to need plenty of rest after a busy day?"

Fujisawa is outspoken about Japan's economic outlook. "I derive

great pleasure these days from watching stock and land prices come down to acceptable levels ordinary workers can afford; seeing stock dividends large enough to offer a sound investment and land prices cheap enough for people to build their own homes. I don't think there will be a real economic recovery until that happens." He is equally forthright about overseas criticism of Japan's long working hours: "Those in other countries who say the Japanese work too hard don't realize that Japanese genuinely enjoy their work and find meaning in it. Our greatest asset is our work force, since Japan has very few natural resources." ■

The 15th Annual Special Japan Supplement, 1993, was written by Thomas I. Elliott, Dynaword Inc., Tokyo. Designed by Atsumi Matsui, 101 Design Office, Tokyo. Photographed by Yujiro Koguchi, Sasaki Studio, Tokyo.

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Who's where in the stock market

On average, the stocks in the following report nearly doubled over the past five years. But that is because stocks with big gains bailed out the large number of losers.

By Gilbert Steedley

Over the past five years the 1,132 ranked industry survey stocks in this report had an average price gain of 95.2%. That's pretty impressive compared with the gains made by most market indicators over this period: The Dow industrials rose 65%; the S&P 500 and Wilshire indexes each rose 71%.

But the median, or middle company, in our survey underperformed the market during the measuring period—Dec. 31, 1987 to Nov. 18, 1992. The median gain was only 51%. In all, more than 650 of the 1,132 ranked industry survey stocks failed to keep up with the S&P 500 over the past half-decade.

Why the discrepancy between the average performance of the survey companies and the median performance? A small minority of issues had spectacular gains. The health sector, for example, consists of 89 firms, or just over 7% of the survey companies. Yet this group had an average five-year increase of 254%.

The biggest winner? PacifiCare Health Systems, which climbed over 3,000% during the measuring period. That's almost equivalent to a doubling of share price in each of the past five years. But during 1992 health stocks fell out of favor as Wall Street became spooked over fears about national health insurance. For example, U.S. Surgical, which was one of the best-performing stocks over the past five years, fell more than 40% during 1992.

Consumer nondurables ranked second in overall industry performance with a 174% increase. Although William Farley's financial balloon has been deflated, Fruit of the Loom—of which Farley has approximately 30% voting control—shows an 838% long-term gain. Nike, ranked 14th in long-term gains, was up nearly ninefold over the

past five years. Nike is often thought of as a growth company, but it's selling at only 15 times estimated 1993 earnings. Potential investors must decide whether Nike is a good value or, perhaps, slated to become another L.A. Gear—a once overvalued athletic footwear company that's had a collapse in share price and earnings.

A number of turnaround companies also had exceptional stock performance. Turner Broadcasting (*see cover story*) is the 37th-best-performing issue in this survey. Ted Turner's brainchild lost around \$400 million between 1986 and 1990. But the company is expected to earn a small profit in 1992 and 58 cents a share in 1993, according to the New York-based Institutional Brokers Estimate System. That firm provided the 1993 earnings estimates for the table that starts on page 232.

One of the stock market's biggest losers was Ames Department Stores. It traded recently at 10 cents a share. Five years ago—before its ill-advised purchase of Zayre's discount stores division—it was priced around \$14. But even at its recent price of a dime, the company may not be a bargain: It lost \$262 million for the latest 12 months. Stephen Pistner was brought in as Ames' chief executive in April 1990 but was recently let go by the board of directors after they lost patience with Pistner's efforts to revive this badly crippled company. In addition to Ames, nine of the other issues in this survey that lost 90% or more are in Chapter 11.

Biotechnology stocks were neither tracked in this report nor included in the all-industry yardsticks. That's because the revenues of most of the biotechnology companies fall way below the cutoffs we use for the other companies in this survey.

The best stocks 1987-92

Company	5-year price change	Recent price
PacifiCare Health	3,047%	45¼
United HealthCare	2,789	52¾
US Healthcare ¹	1,700	45
Home Depot	1,507	59½
Blockbuster	1,464	16¾
Conseco	1,357	41¾
Cracker Barrel Old Country Stores	1,237	42¼
Stewart & Stevenson	1,082	33½
Thorn Apple Valley	1,004	27
Harley-Davidson	950	34¾

Note: Except as indicated, price changes are from Dec. 31, 1987 to Nov. 18, 1992.

¹Does not reflect special cash dividend paid or distribution of stock in another company.

²Three-year price change.

The worst stocks 1987-92

Company	5-year price change	Recent price
Continental Airlines	-99%	¼¢
Circle K	-99	¼¢
Ames Department Stores	-99	⅛
National Convenience Stores	-98	¼¢
Rexene ²	-98	27½
Wang Laboratories	-96	½
GlenFed	-94	1¼
Meritor Savings Bank	-94	¼
Hadson	-94	¼
New Valley	-93	⅛

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
1026	AAR Corp	-38.0	11½	1.04	4.1
210	Abbott Laboratories	159.1	31¼	1.70	1.9
903	Acme Metals	-10.5	12¾	1.38	0.0
856	Adia Services	-1.6	15½	1.18	1.0
482	Advanced Micro	65.8	16¾	1.86	0.0
74	ADVO	300.0	25	1.34	0.0
858	Aetna Life & Cas	-4.1	43¾	4.55	6.4
887	Affiliated Pubs	-8.2†	11¼	0.53	2.1
313	Aflac	109.7	29¾	2.53	1.5
883	HF Ahmanson	-7.6	15¼	2.17	5.8
1009	Air & Water Tech	-32.7†	14¾	0.49	0.0
46	Air Express Intl	437.5	26¾	1.71	0.5
271	Air Prods & Chems	125.2	45¾	2.72	1.9
239	Airborne Freight	142.0	18	1.09	1.7
NR	Akzo	NA	36¾	5.11	4.1
742	Alaska Air Group	21.8	16½	0.76	1.2
829	Albany International	4.7	13¾	0.99	2.5
282	Alberto-Culver	121.7	23	1.59	1.0
94	Albertson's	261.6	45¾	2.60	1.4
925	Alcan Aluminium	-14.2	15¾	0.81	2.0
444	Alco Standard	74.2	35½	2.69	2.7
300	Alex Brown	113.9	19¼	2.50	2.6
601	Alexander & Alexander	47.9	26¼	1.43	3.8
825	Alexander & Baldwin	5.2	22¾	2.31	3.9
400	Allegheny	84.3	121	10.50	0.0
412	Allegheny Ludlum	82.0†	29¾	2.40	2.9
721	Allegheny Power	25.9	46¾	3.80	6.8
102	Allen Group	253.1	24¾	2.17	0.8
647	Allergan	38.8†	24¾	1.76	1.7
NR	Alliant Techsystems	NA	25¾	4.25	0.0
1111	Allied Products	-88.6	1½	0.11	0.0
350	AlliedSignal	97.8	55¾	4.74	1.8
231	Alltel	144.8	47¾	2.83	3.4
644	Alcoa	39.6	65¼	5.47	2.5
1118	AM International	-92.1	¾	NA	0.0
930	AMAX	-15.6	16¾	0.88	4.7
826	AMC Entertainment	5.0†	5¼	NA	21.7
1067	Amdahl	-53.2	8¼	0.97	1.2
395	Amerada Hess	84.9	46	1.84	1.3
1116	America West Airlines	-91.7	¾	-1.50	0.0
276	American Bankers	124.0	21	2.66	2.9
390	American Brands	85.4	41¼	4.85	4.8
368	American Building	93.6	18¾	1.70	2.6
196	Amer Business Prods	166.4	25¾	1.90	2.7
689	American Cyanamid	32.4	54¾	5.00	3.0
765	American Electric	18.6	31½	2.78	7.7
857	American Express	-1.6	22½	2.57	4.4
501	American General	62.2	51½	5.15	4.0
124	American Greetings	229.5	46¾	3.53	1.9
378	American Home Prods	90.0	69¾	5.50	4.1
252	American Intl Group	133.9	112¼	8.37	0.5
414	American Maize	81.4	23¾	NA	2.8
NR	American Medical	NA	9¾	0.87	0.0
465	American Natl Ins	69.4	44¼	4.67	4.6
376	American Oil & Gas	90.7	12¾	1.19	0.0
687	American President	32.6	39¾	4.39	1.5
503	American Stores	61.9	40¾	3.56	1.7
446	American Tel & Tel	73.6	46¾	3.27	2.8
558	American Water Works	52.7	24¾	2.46	3.8
553	Ameritech	53.9	65¾	5.18	5.4
804	Ameron	9.4	35	NA	3.7
1130	Ames Dept Stores	-99.0	1½	NA	0.0
791	Ametek	11.5†	15¾	1.17	4.3
608	Amoco	46.7	50¾	3.11	4.3
755	AMP	20.1	56½	3.27	2.7
NR	Amphenol	NA	5¾	0.90	0.0
436	AMR	75.9	62	4.86	0.0
NR	Amsco International	NA	28¾	1.42	0.0

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
349	AmSouth Bancorp	97.8	30½	2.76	3.8
1017	Anacomp	-35.3	4¼	0.53	0.0
793	Analog Devices	11.1	12½	0.75	0.0
396	Anchor Bancorp	84.8	9¾	NA	0.0
117	Andrew	234.9	44¾	3.17	0.0
816	Angelica	7.5	23¾	2.48	3.9
442	Anheuser-Busch Cos	74.5	58¼	3.98	2.2
NR	AnnTaylor Stores	NA	21¾	1.37	0.0
90	Anthem Electronics	276.3	37¾	2.90	0.0
297	Aon	114.8	49¾	4.17	3.4
763	Apogee Enterprises	18.8	11¾	0.83	2.4
657	Apple Computer	37.5	57¾	4.50	0.8
1037	Applied Magnetics	-41.7	8¾	0.22	0.0
96	Applied Materials	259.0	35	1.66	0.0
440	Applied Power	75.0	14	1.29	0.9
53	Arbor Drugs	402.0	21¾	1.15	0.6
250	Archer Daniels	134.3	26	1.80	0.4
863	Arden Group	-3.6	27	NA	0.0
180	Argonaut Group	179.8	27¾	3.43	3.0
1049	Arkla	-47.2	9½	0.57	2.9
1055	Armco	-50.0	5¾	0.16	0.0
935	Armstrong World Inds	-17.1	26¾	2.27	4.5
82	Arrow Electronics	290.7	26¾	1.93	0.0
627	Arvin Industries	42.9	27½	2.36	2.5
941	Asarco	-18.4	23¼	2.55	3.4
932	Ashland Oil	-16.5	24¾	2.42	4.1
298	ASK Computer Systems	114.3	16¾	1.03	0.0
51	AST Research	408.4	18¾	1.80	0.0
1108	Atari	-81.7	1¾	NA	0.0
1036	Guy F Atkinson	-41.1	8¼	0.65	0.0
510	Atlanta Gas Light	61.0	34¾	2.24	6.0
607	Atlantic Energy	46.9	22½	1.84	6.8
533	Atlantic Richfield	57.4	108¾	7.37	5.1
270	Automatic Data	125.6	50¾	2.09	0.9
NR	AutoZone	NA	37¼	1.07	0.0
705	Avery Dennison	28.8	27¾	1.83	3.2
685	Avnet	33.2	31¾	1.93	1.9
268	Avon Products	127.2†	58½	3.87	2.7
1113	Avondale Industries	-89.4*	1¾	-0.07	0.0
769	Aztar	17.0	6¾	0.57	0.0
170	J Baker	187.7	20½	1.70	0.3
590	Baker Hughes	48.6	20¼	1.14	2.3
871	Ball Corp	-5.3	33½	2.64	3.7
1068	Bally Manufacturing	-53.4	5	0.30	0.0
780	Baltimore G&E	15.0	22¾	1.83	6.4
197	Banc One	166.2	48	3.83	2.7
258	Bancorp Hawaii	131.0	43¾	4.90	3.0
264	Bandag	128.7	60¾	3.48	1.1
842	Bank of Boston	1.1	22¾	2.48	1.8
383	Bank of New York	88.3	48½	4.67	3.1
33	BankAmerica	520.0	42¾	5.85	3.0
327	Bankers Trust NY	107.1	65¾	8.38	4.3
195	Banta	166.7	38	2.90	1.7
372	CR Bard	91.3	33	1.67	1.6
878	Barnes Group	-7.0	29¾	NA	4.7
584	Barnett Banks	49.8	42½	3.36	3.1
NR	Baroid	NA	5¼	0.41	3.5
537	Bassett Furniture Ind	56.8	34½	2.64	2.4
125	Bausch & Lomb	229.2	57	3.29	1.4
555	Baxter International	53.3	34¾	2.74	2.5
859	BayBanks	-2.0	37	2.77	0.0
253	Bear Stearns Cos	133.6	15¾	2.37	3.6
710	Bearings	28.1	21½	1.35	3.0
682	Beckman Instruments	33.3*	23½	1.72	1.4
557	Becton Dickinson	52.9	78	5.17	1.7
625	Bell Atlantic	43.1	46½	3.44	5.6
951	Bell Industries	-19.8	11¾	0.85	3.6
686	BellSouth	33.0	48¾	3.58	5.7

Note: Except as indicated, price changes are from Dec. 31, 1987 to Nov. 18, 1992. NR: Not ranked because of merger, spinoff, reorganization, new issue or conversion to stock company. *Four-year price change. †Three-year price change. ‡Does not reflect special cash dividend paid or distribution of stock in another company. NA: Not available. def: Deficit.

Sources: Forbes; Media General; Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan, via Lotus One Source.

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
438	AH Belo	75.3	42½	2.21	1.3
262	Bemis	129.3	22	1.36	2.1
448	Beneficial Corp	72.7	60	7.15	4.7
337	Bergen Brunswig	101.4	19	1.62	2.1
171	WR Berkley	187.5	46	3.00	0.8
112	Berkshire Hathaway	238.1	9975	425.00	0.0
80	Best Buy Co	297.0	32¼	1.55	0.0
952	Bethlehem Steel	-20.1	13¾	0.85	0.0
186	Betz Laboratories	173.8	57½	3.01	2.4
472	Beverly Enterprises	67.9	11¼	0.71	0.0
678	Big B	34.1	15¼	1.30	1.3
423	Bindley Western Inds	79.3	13	1.93	0.5
247	Birmingham Steel	137.2	31¾	2.06	1.9
840	Black & Decker	1.3	19¾	1.37	2.1
257	Blair	131.3	55½	4.38	4.1
226	H&R Block	149.2	38¾	1.96	2.6
285	Block Drug	120.9	50½	NA	2.0
5	Blockbuster	1463.9	16¾	0.94	0.2
919	Blount	-13.8	8¾	NA	5.2
508	Boatmen's Bancshs	61.2	50¾	5.23	4.4
408	Bob Evans Farms	82.7	19¾	1.19	1.3
312	Boeing	109.8	34½	5.06	2.9
1064	Boise Cascade	-52.8	19¼	-0.63	3.1
808	Borden	8.6	26¾	2.28	4.5
218	Borland Intl	153.2†	25	2.28	0.0
623	Boston Edison	43.3	26¾	2.15	6.1
979	Bowater	-25.0	22½	0.25	5.4
409	Briggs & Stratton	82.4	49¼	3.84	3.4
28	Brinker Intl	585.4	41¼	1.41	0.0
486	Bristol-Myers Squibb	64.9	68¾	4.92	4.2
966	British Petroleum	-22.4	43¾	3.26	8.3
310	Broad	110.6†	24¼	2.82	1.1
554	Broken Hill	53.6	28¾	NA	4.1
1070	Brooke Group	-55.0	3¾	-3.22	16.6
580	Brooklyn Union Gas	50.0	33	2.51	5.9
235	Brown-Forman	142.9	85¾	6.50	3.2
975	Brown Group	-24.4	24¼	2.07	6.5
913	Browning-Ferris Inds	-12.1	24¾	1.36	2.8
811	Bruno's	8.4	11¼	0.87	2.0
844	Brunswick	0.8	14¾	1.19	3.0
149	Burlington Coat	208.9	20¼	1.35	0.0
NR	Burlington Industries	NA	12¾	1.62	0.0
470	Burlington Northern	68.6*	39	3.89	3.1
730	Burlington Resources	24.1*	40½	1.54	1.2
953	Butler Manufacturing	-20.3†	13¾	1.01	0.0
NR	Buttrey Food & Drug	NA	8¼	1.35	0.0
NR	BWIP Holdings	NA	26	2.13	0.9
764	Cablevision Systems	18.7	31	-5.85	0.0
654	Cabot	37.9	45	3.70	2.3
418	Caesars World	80.5	39¼	3.29	0.0
NR	Caldor	NA	26¼	2.53	0.0
1122	CalFed	-93.1	1½	0.26	0.0
927	CalMat	-15.1	22½	1.04	2.8
155	Campbell Soup	200.4	41¾	2.21	2.1
706	Capital Cities/ABC	28.8	444¾	29.82	0.0
237	Capital Holding	142.1	65¾	6.99	2.2
42	Cardinal Distribution	456.0	27½	1.85	0.4
679	Carl Karcher	33.9	9¾	0.80	0.8
551	Carlisle Cos	54.3	44¾	3.58	3.0
209	Carnival Cruise Lines	159.4	31¾	2.28	1.8
1003	Carolina Freight	-31.3	14¼	1.00	1.4
542	Carolina Power & Lt	55.6	52½	4.62	6.1
828	Carpenter Technology	4.9	45½	3.50	5.3
955	Carter Hawley Hale	-20.6	6¾	NA	0.0
175	Carter-Wallace	181.9	31¾	2.00	1.1
672	Casey's General Store	34.5	18½	1.26	0.6
669	AM Castle & Co	34.8	11½	1.15	3.5
923	Caterpillar	-14.1	53¼	3.11	1.1

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
266	CBI Industries	127.4	30¾	2.07	1.6
748	CBS	21.0	190	14.96	0.5
613	CDI	45.2	7¾	0.72	0.0
304	Centel	112.3	33½	0.87	2.7
774	Centerior Energy	16.3	18¾	1.77	8.5
100	Centex	253.6	30½	2.11	0.7
371	Central & So West	91.5	28¼	2.15	5.5
432	Central Hudson G&E	77.5	30¾	2.66	6.5
593	Central Maine Power	48.4	23	2.01	6.8
846	Central Newspapers	0.5†	22¾	1.38	1.9
714	Central Steel & Wire	27.6	625	NA	3.5
991	Ceridian Corp	-28.3	15½	1.13	0.0
945	Champion Intl	-19.2	27¾	0.75	0.7
161	Charming Shoppes	197.9	17¾	0.87	0.4
770	Chase Manhattan	16.9	25¾	3.66	4.6
962	Chemed	-21.4	26¾	NA	7.7
473	Chemical Banking	67.8	35¾	4.51	3.3
719	Chesapeake	26.5	20¾	1.69	3.4
445	Chevron	74.1	69	4.65	4.8
NR	Chicago & N Western	NA	20½	2.03	0.0
797	Chiquita Brands Intl	11.0	16¾	1.42	4.0
725	Chrysler	25.4	27¾	2.34	2.2
150	Chubb	208.3	86¼	6.45	1.9
213	Church & Dwight	156.9	35	1.68	1.1
729	Cigna	24.8	54¾	5.45	5.6
694	CILcorp	30.9	38¾	2.94	6.4
682	Cincinnati Bell	33.3	16½	1.03	4.8
58	Cincinnati Financial	366.3	61	3.38	1.7
571	Cincinnati G&E	50.8	24¾	2.10	6.7
950	Cincinnati Milacron	-19.8	16¾	1.07	2.1
617	CipSCO	44.5	29¾	2.24	6.5
1131	Circle K	-99.3	¼	NA	0.0
60	Circuit City Stores	346.2	41	2.40	0.3
55	Circus Circus	381.3	56¼	2.65	0.0
860	Citicorp	-2.0	18¼	2.07	0.0
428	Citizens Utilities	78.2	29	1.57	0.0
957	Clark Equipment	-20.7	19¾	1.63	0.0
507	Clorox	61.3	44¾	3.04	3.8
696	CMS Energy	30.6	17¾	1.68	2.7
467	CNA Financial	69.0	94	4.35	0.0
598	Coachmen Industries	48.2	10¾	0.50	0.8
1069	Coast Savings Finl	-53.9	7¾	1.90	0.0
591	Coastal Corp	48.6	25¾	2.25	1.6
67	Coca-Cola	327.5†	40¾	1.71	1.4
1008	Coca-Cola Bottling	-32.6	15½	0.52	5.7
926	Coca-Cola Enterprises	-14.9	12½	0.31	0.4
159	Colgate-Palmolive	198.7	58¾	3.33	2.1
NR	Coltec Industries	NA	17	1.52	0.0
1041	Columbia Gas System	-44.7	22¼	2.17	0.0
NR	Columbia Hospital	NA	19¾	1.44	0.0
556	Comcast	53.0	16¾	-0.95	0.8
896	Comdisco	-9.8	16	1.66	1.8
245	Comerica	138.5	61¾	6.48	3.3
182	Commerce Bchshs	177.3	41¼	3.79	1.9
1029	Commerce Clearing	-39.0	18¾	0.99	3.7
475	Commercial Federal	67.6	14¾	1.75	0.0
639	Commercial Intertech	40.4	20	1.38	3.4
433	Commercial Metals	77.5	25¾	1.78	2.1
910	Commonwealth Ed	-11.8	24¼	2.39	6.6
597	Commonwealth Energy	48.2	41¾	3.57	7.0
463	Comsat	69.6	47½	3.67	2.9
592	Compaq Computer	48.5	41¾	2.77	0.0
NR	CompUSA	NA	33½	0.78	0.0
807	Computer Associates	8.6	17¾	1.30	0.6
606	Computer Sciences	47.0	74¼	5.38	0.0
NR	Computervision	NA	6¼	0.88	0.0
176	ConAgra	181.5	31¾	2.06	2.0
222	Conner Peripherals	152.4*	19¾	2.79	0.0

Note: Except as indicated, price changes are from Dec. 31, 1987 to Nov. 18, 1992. NR: Not ranked because of merger, spinoff, reorganization, new issue or conversion to stock company. *Four-year price change. †Three-year price change. ‡Does not reflect special cash dividend paid or distribution of stock in another company. NA: Not available. def: Deficit.

Sources: Forbes; Media General; Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan, via Lotus One Source.

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
5	Conseco	1356.5	41 7/8	4.60	0.2
585	Consolidated Edison	49.7	31 1/4	2.53	6.1
1035	Consol Freightways	-40.9	16 1/4	1.13	0.0
720	Consol Natural Gas	26.4	46 1/8	2.67	4.1
633	Consolidated Papers	42.2	40	2.12	3.2
154	Consolidated Rail	201.3	41 1/8	3.57	2.6
106	Consolidated Stores	245.0	17 1/4	1.00	0.0
1132	Continental Airlines	-99.4	7 1/8	-0.75	0.0
515	Continental Bank	60.4	19 1/4	2.64	3.1
992	Continental Corp	-28.4	27 3/4	0.56	3.6
203	Continental Medical	163.0	18 3/8	1.01	0.0
459	Cooper Industries	70.7†	47 3/8	3.50	2.6
17	Cooper Tire & Rubber	749.1	32 3/8	1.46	0.6
766	Adolph Coors	17.8	19 7/8	1.70	2.5
570	CoreStates Financial	50.9	50 3/4	4.99	4.3
132	Corning	223.0	37 3/4	2.24	1.8
13	Costco Wholesale	809.1	25	1.14	0.0
230	CPC International	145.1	49 3/8	3.20	2.4
861	CPI	-2.2	17	1.98	3.3
7	Cracker Barrel OCS	1236.6	42 1/4	1.15	0.1
563	Crane	52.4*	23 3/8	2.15	3.2
92	Crawford & Co	275.0	21 1/4	1.19	1.9
1091	Cray Research	-70.1†	21 1/8	3.16	0.0
579	Crestar Financial	50.3	33 3/4	2.64	2.4
24	Crompton & Knowles	615.8	18 3/8	1.04	1.8
836	Crown Central Pet	2.6	14 3/4	2.08	0.0
165	Crown Cork & Seal	195.4	34 3/8	2.08	0.0
692	CRSS	31.3	7 7/8	0.64	1.5
1101	Crystal Brands	-76.4	3 3/8	0.99	0.0
275	CSX	124.0	65 1/4	5.55	2.3
78	CUC International	297.6†	25 3/8	1.07	0.0
1072	Culbro	-55.6	16	NA	0.0
575	Cummins Engine	50.5	71 1/8	7.02	0.3
817	Curtice Burns Foods	7.3	14 3/4	1.10	4.3
499	Cyprus Minerals	62.4	26 1/4	3.35	3.0
872	Dairy Mart	-5.3	6 1/4	0.75	0.0
723	Dana	25.6	42 7/8	2.67	3.7
201	Danaher	164.7	22 1/2	1.92	0.0
905	Dart Group	-11.0	68 1/2	NA	0.2
1059	Data General	-51.9	11 3/8	0.43	0.0
183	Dayton Hudson	175.6	76 1/8	5.77	2.0
454	Dean Foods	71.3	28 3/8	2.15	2.1
792	Deere & Co	11.2	38 3/8	2.30	5.2
841	Delchamps	1.3	20 1/4	1.55	2.2
45	Dell Computer	443.7*	36 1/4	2.96	0.0
713	Delmarva Power & Lt	27.8	23	1.72	6.7
624	Delta Air Lines	43.1	53 1/8	-3.94	2.3
331	Delta Woodside Inds	105.4	14 3/8	1.67	2.8
397	Deluxe	84.6	45	2.75	3.1
238	Detroit Edison	142.1	32 3/8	3.25	6.1
806	Dexter	9.1	25 1/2	1.89	3.5
NR	Dial	NA	40 3/8	3.22	2.8
317	Diamond Shamrock	108.6	18 1/4	2.03	2.8
34	Dibrell Brothers	508.0	38	2.44	1.6
560	Diebold	52.7	57 1/4	3.40	2.9
1099	Digital Equipment	-76.1	32 1/4	-0.75	0.0
41	Dillard Dept Stores	468.0	46 3/8	2.50	0.2
1089	Dime Savings Bank FSB	-69.2	5	0.87	0.0
189	Walt Disney	171.7	40 1/4	1.83	0.5
987	Dixie Yarns	-27.3	12	0.89	1.7
580	Dole	50.0	27 3/4	2.39	1.4
25	Dollar General	613.1	27 7/8	1.33	0.7
761	Dominion Bankshares	19.0	21 1/8	0.81	0.0
620	Dominion Resources	44.1	39 3/4	3.08	6.2
111	Donaldson	238.7	35	2.07	1.1
388	RR Donnelley & Sons	86.2	30 3/8	1.78	1.7
370	Douglas & Lomason	91.8	19 1/2	3.34	2.1
646	Dover	39.3	43 3/8	2.66	2.0

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
911	Dow Chemical	-11.9	52 3/8	3.50	4.9
870	Dow Jones	-5.0	28 3/8	1.73	2.7
406	DPL	83.1	19 1/8	1.46	5.6
198	DQE	166.0	31 1/4	2.72	5.1
947	Dravo	-19.6	9 1/4	0.92	0.0
663	Dresser Industries	36.2†	17 3/8	1.28	3.4
989	Drug Emporium	-27.7*	5 3/8	0.60	0.0
113	DSC Communications	237.2	18 1/8	0.50	0.0
518	El du Pont de Nemours	59.7	46 1/2	3.74	3.8
479	Duke Power	66.2	35 3/8	2.72	5.1
832	Dun & Bradstreet	3.2	56 1/2	3.52	4.0
NR	Duracell Intl	NA	34 3/8	1.49	0.9
389	DWG	85.7	13	1.75	0.0
831	Dynatech	3.8	20 1/2	1.75	0.0
610	E-Systems	46.2	38 3/4	4.03	2.6
1082	Eagle Food Centers	-62.9†	6 1/2	1.00	0.0
1115	Eagle-Picher Inds	-91.2	2 1/8	NA	0.0
745	Eastern Enterprises	21.4	27 3/8	2.42	5.1
937	Eastman Kodak	-17.9	40 1/4	4.14	5.0
680	Eaton	33.7	70 3/8	6.30	3.1
609	Echlin	46.4	20 1/2	1.26	3.4
520	Ecolab	59.6	37 1/2	2.44	1.9
98	Edison Bros Stores	255.9	45 3/8	3.83	2.7
136	AG Edwards	221.0	24 3/8	2.75	2.2
741	EG&G	21.8	20 1/4	1.77	2.6
884	Egghead	-7.6*	10 3/8	1.15	0.0
1110	El Paso Electric	-82.3	2 1/2	0.39	0.0
1047	Eljer Industries	-47.1†	10 1/4	NA	0.0
603	Emerson Electric	47.7†	51 1/8	3.36	2.8
894	Emerson Radio	-9.5	2 3/8	0.29	0.0
193	Engelhard	167.9	35 1/2	1.73	1.7
227	Enron	146.6	48 1/4	2.94	2.9
893	Enserch	-9.3	15 3/8	0.75	5.0
86	Entergy	281.8	31 1/2	2.72	5.1
676	Equifax	34.2	18 3/8	1.25	2.8
NR	Equitable Cos	NA	10 3/8	0.66	2.0
63	Equitable of Iowa	341.2	37 1/2	3.74	1.9
561	Equitable Resources	52.6	48 1/4	3.30	3.4
1060	ERLY Industries	-51.9	2 1/8	NA	0.0
NR	ESCO Electronics	NA	6 3/8	0.43	0.0
523	Ethyl	59.5†	29 1/2	2.28	2.0
534	Exxon	57.4	60	4.22	4.8
137	Fabri-Centers of Amer	220.2	13 3/8	0.94	0.0
876	Fairchild	-6.9	4 1/2	-0.25	0.0
69	Family Dollar Stores	317.7	20 3/8	1.15	1.3
365	Fay's	94.4	7 3/8	0.73	2.5
740	Federal Express	21.9	48 3/8	3.42	0.0
324	Federal Home Loan Mtg	107.8†	46 1/2	4.06	1.6
839	Federal-Mogul	1.5	17	1.21	2.8
22	Federal Natl Mortgage	621.7	73 3/8	6.65	2.2
682	Federal Paper Board	33.3	26 1/2	2.74	3.8
66	Federal Signal	329.6	20 1/4	1.16	2.1
NR	Federated Dept Strs	NA	16 3/8	1.10	0.0
211	Ferro	158.6	26	2.17	1.8
20	FHP International	641.9	21 1/2	1.26	0.0
777	Fieldcrest Cannon	15.2	16 3/8	1.92	0.0
118	Fifth Third Bancorp	234.2	51 1/4	3.09	1.7
990	Figgie Intl	-28.0	18	2.38	2.8
NR	Filene's Basement	NA	22	1.14	0.0
818	Fina	6.9	62 3/8	NA	5.2
NR	Fingerhut Cos	NA	30 3/8	2.88	1.1
790	First American Corp	12.4	23 3/4	2.24	1.7
321	First American Finl	108.0	22	1.20	1.9
743	First Bank System	21.6	25 3/8	2.71	3.5
629	First Brands	42.7†	26 3/4	2.45	0.9
457	First Chicago	70.9	32 1/4	4.09	3.7
126	First Empire State	227.7	136	13.52	1.2
670	First Fidelity Bncp	34.7	40 1/4	4.00	3.3

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THE FUELS THAT HELPED CALIFORNIA BECOME THE WORLD LEADER AGAINST POLLUTION.



In November 1991, the California Air Resources Board took a powerful stand against vehicular pollution.

The Board established reformulated gasoline standards that now lead the world in the fight for clean air.

California's leadership against pollution was given major impetus four years ago, when ARCO initiated a business and government partnership with the South Coast Air Quality Management District. It resulted in the world's first emission control gasoline, EC-1. And later, EC-Premium.

Since their introduction, vehicular pollution in Southern

California has been reduced by over two hundred million pounds.

Then two years ago, in partnership with California's Air Resources Board, ARCO developed EC-X. As the latest advance in emission control formulas, EC-X gave the Board an example for its strict, reformulated gasoline standards.

When the standards take effect in 1996, all Californians can use clean burning, reformulated gasolines that will reduce vehicular pollution by 3.8 million pounds a day, compared to current emissions. Those new gasolines —

California's fuels of the future — will help achieve clean air more quickly, more practically, at less cost than methanol or other alternative fuels yet considered. Strong reasons why the Board's standards have the support of environmental groups and air quality management agencies.

At ARCO, we are proud of our EC-X clean fuel for the future. And of the partnership that is leading the world in clean air solutions.

ARCO 
CLEAN FUELS FOR THE FUTURE.

WHO'S WHERE IN THE STOCK MARKET

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
251	First Financial Mgmt	133.9	37%	2.51	0.3
824	First Interstate Bncp	5.4	41%	4.50	2.9
1048	First Mississippi	-47.2	8%	0.95	3.7
483	First of America Bank	65.3	34½	3.88	4.1
233	First Tennessee Natl	144.4	36½	4.06	4.0
355	First Union	96.8	38%	4.18	3.6
185	Firstar	173.9	28½	2.77	3.1
343	FirstFed Michigan	100.0	18	2.52	3.6
NR	Fisher-Price	NA	21%	1.63	0.9
NR	Fisher Scientific	NA	28½	2.01	0.3
645	Fleet Finl Group	39.6	31%	2.85	2.8
290	Fleetwood Enterprises	118.0	37%	2.83	2.4
803	Fleming Cos	9.6	29%	3.51	4.0
596	Florida Progress	48.3	32%	2.30	6.0
783	Florida Rock Inds	14.5	25%	NA	2.0
821	Flowers Industries	6.4	20%	1.10	3.5
140	Fluor	216.4	43½	2.28	0.9
677	FMC	34.1	45½	5.22	0.0
854	Food Lion	-1.0	8½	0.55	1.3
999	Foodarama Supermkts	-30.0	15%	NA	0.0
NR	Foodmaker	NA	12%	1.03	0.0
834	Ford Motor	3.1	38%	3.95	4.1
1007	Foremost Corp of Amer	-32.5	27½	2.60	3.9
1033	Forest City Enterprises	-40.7	16½	NA	0.0
293	Foster Wheeler	117.3	29%	1.68	2.0
NR	Foundation Health	NA	40%	2.23	0.0
717	FPL Group	26.6	36½	2.77	6.7
538	Freeport-McMoRan	40.4†	17%	0.86	7.2
181	Fremont General	177.9	26½	3.85	3.7
NR	Fruehauf Trailer	NA	5%	0.65	0.0
12	Fruit of the Loom	837.5	46%	2.91	0.0
545	HB Fuller	55.2	37½	3.10	1.3
1078	Fuqua Industries	-60.3	11%	1.16	3.2
701	Gannett	29.4	50%	2.84	2.5
23	Gap	620.9	36½	1.97	0.9
627	GATX	42.9	27½	3.38	4.7
1109	Gaylord Container	-82.1*	2%	-1.00	0.0
NR	Gaylord Entertainment	NA	36%	1.01	1.1
187	Geico	173.2	60%	2.86	1.0
1071	GenCorp	-55.1	10	1.42	6.0
NR	General Cable	NA	3¼	NA	0.0
612	General Cinema	45.8	28½	1.56	2.0
329	General Dynamics	105.9	100%	8.65	1.6
425	General Electric	78.5	78%	6.23	3.2
793	General Host	11.1	8%	0.80	4.1
NR	General Instrument	NA	22	1.00	0.0
184	General Mills	175.6	68%	3.91	2.5
845	General Motors	0.6	30%	2.45	2.6
156	General Motors EDS	200.0	28%	1.53	1.2
915	GM Hughes Electronics	-12.5	21%	2.12	3.3
401	General Public Utils	84.1	26½	2.53	6.1
359	General Re	96.2	109%	6.67	1.6
778	General Signal	15.2	54½	4.49	3.3
223	Genesco	150.0	8%	0.63	0.0
NR	Geneva Steel	NA	8½	-0.72	0.0
1031	Genlyte Group	-40.0*	5¼	0.40	0.0
881	Genovese Drug Stores	-7.5	8%	NA	3.0
665	Genuine Parts	36.1	31%	2.14	3.1
NR	Georgia Gulf	NA	19%	2.03	0.0
487	Georgia-Pacific	64.9	56%	3.14	2.8
77	Gerber Products	298.6	34%	2.34	2.4
891	Getty Petroleum	-8.5	9%	NA	0.0
771	Giant Food	16.8	20%	1.45	3.3
576	Gibson Greetings	50.5	19	2.39	2.1
71	Gillette	312.3	58½	2.72	1.2
1103	Gitano Group	-79.8*	4¼	NA	0.0
775	PH Glatfelter	15.4	17%	1.83	3.9
191	Glaxo Holdings	171.2	24%	1.41	2.9

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
1126	GlenFed	-94.3	1¼	0.41	0.0
134	Golden West Finl	222.0	40%	4.68	0.6
35	Good Guys	507.2	10%	0.81	0.0
820	BF Goodrich	6.8	43¼	2.15	5.1
785	Goodyear	13.5	68%	6.14	1.5
752	Goulds Pumps	20.5	23½	1.72	3.4
599	WR Grace	47.9	35½	2.97	3.9
363	WW Grainger	95.3	57%	2.97	1.2
NR	Granite Construction	NA	23	0.89	0.9
988	Great A&P Tea	-27.3	27¼	2.03	2.9
56	Great Lakes Chemical	375.9	64¼	3.90	0.5
874	Gt Western Financial	-5.7	14%	2.15	6.4
548	Grey Advertising	38.6	140	NA	2.2
1023	Grossman's	-37.5	3%	0.47	0.0
330	Grow Group	105.8	13%	1.09	1.8
736	Grumman	22.5	21%	2.80	4.7
374	GTE	90.8	33%	2.31	5.4
762	Guilford Mills	18.9	22½	2.15	2.7
114	Gulf States Utils	236.8	16	1.00	0.0
1124	Hadson	-93.5	¼	NA	0.0
NR	Hall-Mark Electronics	NA	23¼	1.70	0.0
746	Halliburton	21.2	30	1.35	3.3
732	Handleman	23.3	11%	1.51	3.5
956	Handy & Harman	-20.6	12½	1.10	1.6
316	MA Hanna	109.0	27	2.00	2.6
214	Hannaford Bros	156.2	22½	1.42	1.3
309	Hanover Insurance	110.8	49	5.36	0.9
619	Hanson	44.3	17½	1.83	7.9
10	Harley-Davidson	950.0	34%	1.93	0.0
516	Harman International	60.3	13%	1.12	0.0
902	Harnischfeger Inds	-10.3	17%	1.74	2.3
455	Harper Group	71.2	13%	1.40	1.5
703	Harris Corp	29.3	33%	2.79	3.1
756	Harsco	19.5	33	3.56	4.2
244	Hartford Steam Boiler	139.7	55%	2.93	3.8
1106	Hartmarx	-80.9	4½	0.50	0.0
88	Hasbro	279.3	33½	2.19	0.6
548	Hawaiian Electric	55.1	40%	2.82	5.7
NR	Health Care & Retire	NA	28%	1.79	0.0
NR	HealthTrust	NA	16	1.67	0.0
1039	Hechinger	-44.1	10%	0.91	1.5
84	Heilig-Meyers	285.6	25%	1.33	0.9
345	HJ Heinz	99.4	40%	2.81	3.0
148	Helene Curtis Inds	210.8	39%	2.69	0.6
737	Hercules	22.3	57½	4.12	3.9
384	Hershey Foods	88.3	46%	2.95	2.3
843	Hewlett-Packard	0.9	58%	4.85	1.4
1061	Hexcel	-52.3	12%	1.12	3.6
1087	Hibernia	-67.2	5	0.26	0.0
121	Hillenbrand Inds	232.3	41½	1.82	0.9
NR	Hillhaven	NA	3%	0.20	0.0
1121	Hills Dept Stores	-92.8	½	NA	0.0
731	Hilton Hotels	23.9	44	2.74	2.7
812	Holly Corp	8.2†	28	2.66	1.1
NR	Holnam	NA	4	NA	0.0
4	Home Depot	1506.8	59½	1.41	0.2
922	Home Shopping	-14.0†	4%	0.52	0.0
1028	Homestake Mining	-39.0	10%	0.18	1.9
254	HON Industries	132.9	23	1.38	1.7
864	Honda Motor	-3.7	19%	1.33	1.0
242	Honeywell	140.4†	64%	5.29	2.5
NR	Hook-SupeRx	NA	11%	1.22	0.0
NR	Horace Mann Educators	NA	26½	2.08	0.8
273	Geo A Hormel	124.6	24	1.40	1.8
1102	Horn & Hardart	-76.6	2%	0.30	0.0
529	Houghton Mifflin	58.2	38%	2.21	2.1
531	House of Fabrics	57.6	11%	1.12	0.0
661	Household Intl	36.4†	54%	5.95	4.3

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Sources: Forbes; Media General; Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan, via Lotus One Source.

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
594	Houston Industries	48.3	44½	3.53	6.7
544	Howell	55.2	13	0.94	1.2
342	Hubbell	100.1	52½	3.29	3.0
348	Hudson Foods	97.9	11½	0.69	1.0
416	Huffy	80.9	14½	1.40	2.0
965	Hughes Supply	-22.4	12½	NA	0.9
650	Humana	38.3	17¼	2.00	5.1
311	JB Hunt Transport	110.0	22¼	1.25	0.9
302	Huntington Bcsbs	112.9	19¼	1.98	3.6
614	IBP	45.1	18½	1.64	1.1
976	ICF Intl	-24.6†	6½	0.64	0.0
1044	ICH	-46.0	4¼	0.05	0.0
640	ICN Pharmaceuticals	40.0	8¾	NA	0.0
709	IES Industries	28.2	29	2.19	7.2
NR	Illinois Central	NA	23¾	2.15	2.5
875	Illinois Power	-6.9	22	1.93	3.6
399	Illinois Tool Works	84.5	60¾	4.07	1.6
890	IMC Fertilizer Group	-8.5*	40¾	2.96	2.7
241	Imcera Group	140.8	38½	1.98	1.2
1085	Imo Industries	-64.3	5¾	0.82	0.0
960	Imperial Chemical Inds	-21.3	64½	5.97	6.7
588	Imperial Holly	49.5*	11½	NA	4.1
381	Inacom	89.5	13½	1.73	0.0
983	Inco	-25.6*	19¼	1.42	2.1
800	Independent Insurance	10.1	15	2.11	5.9
477	Ingersoll-Rand	66.9	29¾	2.01	2.4
931	Ingles Markets	-16.4	5¼	0.52	3.8
1014	Inland Steel Inds	-34.6	19¾	1.13	0.0
74	Instrument Systems	300.0	5½	0.73	0.0
386	Integra Financial	86.9	37¾	4.01	3.4
206	Intel	162.3	69½	4.81	0.6
61	Intelligent Electron	345.0	8¾	0.85	0.0
NR	Interco	NA	8¾	NA	0.0
848	Interface	0.0	10	NA	2.4
1062	Intergraph	-52.5	11¼	1.12	0.0
1096	Interlake	-74.3†	3½	0.38	0.0
1042	IBM	-45.3	63½	7.57	7.7
212	Intl Flavors & Frags	157.5	114¼	5.58	2.4
574	Intl Multifoods	50.7	26¾	2.43	3.0
604	International Paper	47.0	62½	5.23	2.7
NR	Intl Specialty Prods	NA	11¾	0.89	0.4
848	Intl Technology	0.0	5½	0.49	0.0
135	Interpublic Group	221.2	34	1.75	1.4
NR	Interstate Bakeries	NA	19¾	1.84	2.4
998	InterTAN	-29.4	10½	1.00	0.0
776	Iowa-Illinois G&E	15.3	22½	1.93	7.8
491	Ipalco Enterprises	64.1	34¾	2.72	5.6
734	Itel	22.7	21¾	0.69	0.0
552	ITT	53.9	68½	5.85	2.7
29	Jacobs Engineering	569.3	27	1.24	0.0
978	James River Corp Va	-24.7	17¾	1.28	3.4
1075	Jamesway	-57.1	3¾	0.25	0.0
265	Jefferson-Pilot	128.2	40¾	3.39	3.4
NR	Jenny Craig	NA	17¾	NA	3.4
NR	John Alden Financial	NA	21	3.00	1.0
192	Johnson & Johnson	169.1	50¾	2.91	1.8
492	Johnson Controls	63.9	42	3.09	3.2
490	Jostens	64.3	29¾	1.68	3.0
1045	JWP	-46.2	3¾	0.97	0.0
958	Kauffman	-21.2	10¼	1.21	4.3
420	Kansas City P&L	80.0	22½	1.68	6.4
283	Kansas City Southern	121.4	45¼	3.17	1.3
405	Kaufman & Broad Home	83.3‡	15½	1.29	2.0
194	Kellogg	167.3	70	3.22	1.8
760	Kellwood	19.0	25	2.69	3.2
552	Kelly Services	36.2	42½	1.69	1.8
724	Kemper	25.6	25¼	3.58	3.6
949	Kennametal	-19.7	26½	2.08	4.4

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
996	Kentucky Central Life	-28.9	8	0.30	5.5
784	Kerr-McGee	14.1	41¾	2.37	3.7
232	KeyCorp	144.4	34¾	3.55	3.0
435	Keystone Intl	76.5	24	1.52	2.8
716	Kimball International	26.7	23¼	1.85	3.2
261	Kimberly-Clark	130.0	57½	3.78	2.9
221	King World Prods	152.5	29¾	2.57	0.0
410	Kmart	82.4	27¾	2.37	3.4
451	KN Energy	71.8	26¾	2.30	5.0
605	Knight-Ridder	47.0	59	3.50	2.4
NR	Kohl's	NA	30¾	1.31	0.0
573	Kroger	50.7*	13¾	1.44	0.0
543	KU Energy	55.2	27¾	2.13	5.6
54	LA Gear	401.3	11¼	0.36	0.0
626	La-Z-Boy Chair	43.0	22¾	1.89	2.6
637	Laclede Gas	40.4	39½	NA	6.1
1023	LADD Furniture	-37.5	8¾	0.75	0.0
785	Lafarge	13.5	13¾	0.91	2.2
146	Lancaster Colony	211.8	36¾	2.09	1.9
659	Lance	37.1	24	1.45	4.0
753	Lands' End	20.2	24½	2.15	0.8
205	Leggett & Platt	162.5	28¾	1.81	1.7
120	Lennar	233.8	27¾	2.15	0.4
267	Leslie Fay Cos	127.3	12½	1.80	0.0
26	Leucadia National	594.9	67¾	3.86	0.0
450	LG&E Energy	71.8	34½	2.51	5.8
615	Liberty Corp	45.1	25¾	2.43	2.2
943	Lifetime	-18.7	14¾	1.76	0.0
504	Eli Lilly	61.9	63¾	5.60	3.5
156	Limited	200.0	25¾	1.60	1.1
691	Lincoln Electric	31.6	250	NA	2.9
447	Lincoln National	72.9	69¾	5.40	4.4
1119	Lionel	-92.2	¾	NA	0.0
779	Litton Industries	15.1	41½	4.60	0.0
1105	LIVE Entertainment	-80.6	1¾	0.25	0.0
223	Liz Claiborne	150.0	41¼	3.07	1.0
651	Lockheed	38.2	47½	6.11	4.5
141	Loctite	215.9	46	2.57	1.7
443	Loews	74.5	116¼	12.42	0.9
1107	Lone Star Tech	-81.3	3¼	0.55	0.0
103	Long Island Lighting	252.6	25¾	2.21	6.9
798	Longs Drug Stores	10.7	33¾	3.03	3.3
427	Longview Fibre	78.2	16¾	1.26	2.4
643	Loral	39.7	44	4.87	2.3
1015	Lotus Development	-35.0	20	1.83	0.0
835	Louisiana Land	2.9	35¼	1.15	2.8
145	Louisiana-Pacific	213.3‡	55¾	4.06	1.4
220	Lowe's Cos	152.7	20¾	1.31	1.4
898	LSI Logic	-10.1	8¾	0.44	0.0
1104	LTV	-80.0	½	NA	0.0
502	Lubrizol	62.0	26¾	2.26	3.2
429	Lukens	77.9	38¼	3.30	2.6
782	Lyondell Petrochem	14.5†‡	24¾	1.86	7.3
1057	M/A-Com	-51.3	4¾	0.56	0.0
858	Mac Frugal's Bargains	-1.7	14¾	1.38	0.0
468	Magma Copper	68.8	11¾	1.97	0.0
366	MagneTek	93.9†	16	1.46	0.0
177	Manor Care	181.0	22¼	1.22	0.4
848	Manpower	0.0*	1¢	0.87	0.0
1053	Manville	-49.3	9¾	0.61	0.0
289	Mapco	119.2	52¾	5.70	1.9
813	Marion Merrell Dow	8.2	26½	2.75	3.8
123	Mark IV Industries	229.7	14¾	1.33	0.6
1006	Marriott	-32.1	20¾	1.12	1.4
407	Marsh & McLennan Cos	83.1	90¾	4.71	3.0
750	Marsh Supermarkets	20.9	13½	1.73	3.3
284	Marshall & Ilsley	121.1	62¾	5.36	2.4
234	Marshall Industries	143.2	40¾	3.47	0.0

Note: Except as indicated, price changes are from Dec. 31, 1987 to Nov. 18, 1992. NR: Not ranked because of merger, spinoff, reorganization, new issue or conversion to stock company. *Four-year price change. †Three-year price change. ‡Does not reflect special cash dividend paid or distribution of stock in another company. NA: Not available. def: Deficit.

Sources: Forbes; Media General; Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan, via Lotus One Source.

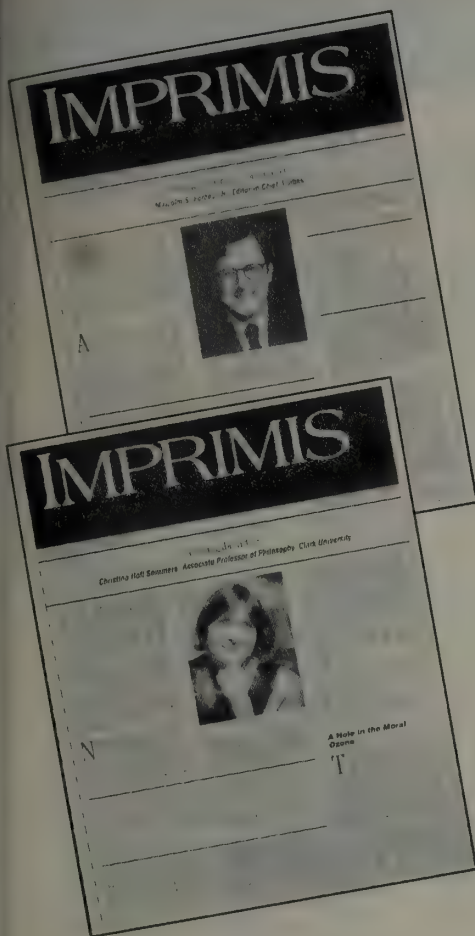
Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
656	Martin Marietta	37.8	57½	7.91	2.9
772	Masco	16.8†	25¼	1.89	2.5
901	Masco Industries	-10.3	8¾	0.89	0.0
27	Mattel	588.6	25¼	1.74	0.8
431	Maxtor	77.8	16	2.75	0.0
880	Maxus Energy	-7.1	6½	-0.16	0.0
138	Maxxam	218.8	25½	NA	0.0
228	May Dept Stores	146.4†	71¼	5.06	2.3
1020	Maytag	-35.8	14¾	1.04	3.5
NR	MBNA	NA	44¾	3.97	3.9
369	McCaw Cellular	92.2	31	-1.01	0.0
690	McClatchy Newspapers	32.2*	19½	1.30	1.2
32	McCormick & Co	524.6	28½	1.34	1.4
595	McDermott Intl	48.3	21½	1.44	4.6
292	McDonald's	117.6	47½	2.99	0.8
885	McDonnell Douglas	-7.8	54¾	7.98	2.6
727	McGraw-Hill	25.1	60¾	3.80	3.7
81	MCI Communications	292.0	36¾	2.55	0.3
500	McKesson	62.3	43	2.82	3.7
636	MCN	40.7*	26½	2.31	6.4
1018	MDC Holdings	-35.4	3¾	NA	0.0
796	Mead	11.1	37¾	2.85	2.7
21	Medco Containment	622.8	33¼	0.82	0.1
1056	Media General	-50.7	17¾	0.99	2.5
59	Medical Care America	361.4	25¾	2.27	0.0
64	Medtronic	336.9	102	4.01	0.5
426	Mellon Bank	78.2†	48½	4.76	2.9
367	Melville	93.9	51¾	4.25	2.9
977	Mentor Graphics	-24.7	8¾	0.28	2.9
272	Mercantile Bancorp	124.7	43¼	4.72	3.2
899	Mercantile Stores	-10.1	33¼	3.27	3.1
202	Merck	164.0	46½	2.53	2.2
101	Mercury General	253.1	24½	2.39	2.0
933	Meredith	-16.7	25	1.21	2.6
527	Meridian Bancorp	59.1	27¼	2.85	4.4
440	Merisel	75.0*	10½	0.95	0.0
1125	Meritor Savings Bank	-94.2	¼	NA	0.0
199	Merrill Lynch	165.4	59¾	6.39	2.0
16	Merry-Go-Round	749.1	14¾	0.94	0.3
168	Fred Meyer	191.8	31	2.40	0.0
652	Michael Foods	38.1	12¾	0.82	1.6
38	Michaels Stores	478.9	27½	1.40	0.0
788	Michigan National	13.3	46¾	5.25	4.3
420	MicroAge	80.0	7¾	1.44	0.0
712	Micron Technology	28.0	18¾	1.07	0.3
19	Microsoft	663.2	92	3.09	0.0
1051	Midlantic	-48.7	17½	1.04	0.0
815	Midwest Resources	8.0	16½	1.41	7.0
946	Herman Miller	-19.5	15½	1.00	3.4
852	Millipore	-0.3	37¾	2.46	1.4
512	Mine Safety Appliance	60.8	41	NA	2.2
546	Minn Mining & Mfg	55.1	99¾	6.47	3.2
535	Minnesota Power & Lt	57.1	33	2.24	5.9
152	Mirage	205.8	32¾	2.23	0.0
434	Mitchell Energy	77.1	18¾	1.17	2.2
1019	MNC Financial	-35.6	11¾	0.47	0.0
549	Mobil	54.6	60½	4.03	5.3
296	Modine Manufacturing	115.4	35	2.76	2.4
404	Molex	83.7	27	1.30	0.1
675	Monsanto	34.3	55¾	4.55	4.0
525	Montana Power	59.4	25	2.14	6.2
979	Moore Corp	-25.0	15	1.29	6.3
460	JP Morgan & Co	70.3	61¾	6.09	3.5
1088	Morgan Products	-68.7	5¾	0.78	0.0
147	Morgan Stanley	211.0	53¾	5.69	1.8
735	Morrison Knudsen	22.6	20¾	1.40	3.9
294	Morrison Restaurants	117.0	25½	1.67	1.9
466	Morton International	69.0†	60¾	3.34	1.6

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
354	Motorola	97.0	98	5.35	0.9
NR	Mueller Industries	NA	20	1.07	0.0
567	Multimedia	51.4	27	1.92	0.0
541	Murphy Oil	56.0	35¾	1.90	3.3
NR	Musciand Stores	NA	14	1.19	0.0
373	Nacco Industries	91.1	45¾	4.14	1.4
335	Nalco Chemical	102.3	33½	2.13	2.5
914	Nash Finch	-12.2	16¼	2.15	4.5
855	Nashua	-1.4	26¾	2.60	2.7
518	National City	59.7	46½	4.71	4.0
1129	Natl Convenience	-98.4	½	NA	0.0
1095	National Education	-74.0	5	0.70	0.0
478	National Fuel Gas	66.4	27¾	2.03	5.4
171	National Health Labs	187.5*†	23	1.53	1.4
785	National Intergroup	13.5	13¾	NA	0.0
693	National Medical	31.1†	12¾	1.76	3.9
822	Natl Semiconductor	6.3	12¾	1.20	0.0
773	National Service	16.5	24¾	1.77	4.0
169	NationsBank	189.9	50	5.15	3.2
1066	Navistar Intl	-52.9	2	0.17	0.0
357	NBD Bancorp	96.6	28½	2.88	3.8
391	NCH	85.4	72¾	5.97	1.4
908	Neiman Marcus Group	-11.8	13¾	0.45	1.5
488	New England Electric	64.8	36¾	2.89	5.9
1123	New Valley	-93.4	½	NA	0.0
589	NY State E&G	49.1	31¾	2.51	6.9
906	New York Times	-11.3	27½	1.38	2.0
36	Newell Co	490.2	41½	2.31	1.4
809	Newmont Mining	8.5	38¼	1.68	1.6
528	Niagara Mohawk Power	58.3	19	1.77	4.2
339	Nicor	101.1	46¾	3.91	5.0
14	NIKE	793.6	87¾	5.66	0.9
160	NipSCO Industries	198.5	25¾	2.13	4.9
972	Nissan Motor	-23.9	8¾	0.35	1.3
1100	NL Industries	-76.2*	4½	-0.25	0.0
918	Noland	-13.2	14¾	NA	1.6
411	Nordstrom	82.3	36	1.99	0.9
280	Norfolk Southern	123.3	58¾	4.77	3.1
993	Nortek	-28.6	5	NA	0.0
715	Northeast Utilities	27.2†	25¾	2.13	6.8
621	No States Power	43.9	42¾	3.12	5.9
259	Northern Telecom	130.7	39½	2.39	0.9
109	Northern Trust	241.7	61½	4.36	1.8
805	Northrop	9.3	27¾	4.65	4.3
104	Norwest	247.6	42¾	3.89	2.7
11	Novell	945.8	31¾	1.10	0.0
130	Nucor	224.9	64¾	2.60	0.4
393	NWNL	85.2	42¾	5.36	3.5
722	Nynex	25.7	80¾	6.71	5.7
1002	Occidental Petroleum	-30.3	17	0.89	5.9
31	Office Depot	537.4*	34	0.84	0.0
984	Ogden	-25.7	20¾	1.62	6.1
471	Ohio Casualty	68.3	61	5.20	4.4
799	Ohio Edison	10.6	22¼	1.77	6.7
793	Oklahoma G&E	11.1	32½	2.69	8.2
263	Old Kent Financial	128.8	29¾	2.86	3.5
142	Old Republic Intl	215.2	24¾	2.52	1.6
888	Olin	-8.3	38¾	3.59	5.7
375	Olsten	90.8	32¾	1.72	1.0
360	Omnicom Group	96.2	38½	2.66	3.2
853	Oneida	-0.4	11¾	1.33	4.1
336	Oneok	101.5	16¾	1.46	5.9
156	Oracle Systems	200.0	21¾	1.01	0.0
641	Orange & Rockland	39.9	39¾	3.24	6.2
256	Oregon Steel Mills	131.5*	21¾	2.09	2.7
178	Orion Capital	180.6	37¾	5.42	2.4
NR	OrNda HealthCorp	NA	6½	0.84	0.0
940	Oryx Energy	-18.4*	21¾	0.63	1.9

Note: Except as indicated, price changes are from Dec. 31, 1987 to Nov. 18, 1992. NR: Not ranked because of merger, spinoff, reorganization, new issue or conversion to stock company. *Four-year price change. †Three-year price change. ‡Does not reflect special cash dividend paid or distribution of stock in another company. NA: Not available. def: Deficit.

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WHO'S WHERE IN THE STOCK MARKET

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
1021	Oshkosh Truck	-35.8	9%	1.60	5.2
886	Outboard Marine	-8.0	20 1/8	1.40	2.0
708	Overseas Shipholding	28.5	15 1/8	0.80	3.9
95	Owens & Minor	260.8	21 1/4	1.26	1.2
430	Owens-Corning	77.9	29 1/8	3.97	0.0
NR	Owens-Illinois	NA	8 3/4	1.00	0.0
564	Oxford Industries	52.3	16 3/4	1.89	3.6
346	Paccar	99.1	56 3/4	4.76	1.8
1081	Pacific Enterprises	-62.8	18 1/2	1.91	0.0
362	Pacific G&E	95.4	31 3/4	2.70	5.5
538	Pacific Telesis	56.8	41 3/4	3.11	5.2
I	PacificCare Health	3046.7	45 1/4	2.04	0.0
751	PacificCorp	20.6	19%	1.79	7.9
255	PaineWebber Group	132.2	22 1/4	2.86	2.2
204	Pall	162.9	30 3/8	1.24	1.2
NR	Pamida Holdings	NA	4	0.66	0.0
920	Panhandle Eastern	-13.9	17 1/8	1.23	4.5
754	Paramount Commun	20.2	42 3/4	2.74	1.9
974	Parker Hannifin	-24.1	27%	1.88	3.5
900	Penn Central	-10.2†	18 3/4	1.75	4.3
352	Penn Traffic	97.2*	26 3/8	1.54	0.0
422	JC Penney	79.5	77 1/8	6.24	3.4
484	Pennsylvania P&L	65.2	27 1/4	2.14	5.9
973	Pennzoil	-23.9	54	1.75	5.6
305	Pentair	112.0	40	3.40	2.5
1013	People's Bank	-34.4*	5	NA	0.0
332	Peoples Energy	104.9	31 1/4	2.43	5.6
382	Pep Boys	89.1	26	1.10	0.5
89	PepsiCo	276.4	41 1/8	2.08	1.2
1011	Perini	-34.3	16 1/4	1.20	0.0
653	Perkin-Elmer	38.0	33 1/8	2.15	2.1
NR	Perrigo	NA	40	1.10	0.0
602	Perry Drug Stores	47.7	8 1/8	0.88	0.0
NR	Pet	NA	18 1/2	1.09	1.5
526	Petrie Stores	59.2	24 1/8	0.70	0.8
NR	Petroleum Heat & Pwr	NA	11 1/8	-0.46	0.0
122	Pfizer	231.9	77%	3.86	1.9
394	Phelps Dodge	85.1†	43 1/2	5.05	3.8
671	PHH	34.7	37 1/8	3.50	3.2
635	Philadelphia Elec	41.2	26 1/8	2.34	5.4
91	Philip Morris Cos	276.0	80 1/4	6.62	3.2
967	Philips Electronics	-22.4	11 1/4	1.49	0.0
453	Phillips Petroleum	71.4	24	1.70	4.7
43	Phillips-Van Heusen	455.0	27 3/4	1.61	0.5
116	PHM	235.8	28 1/8	3.00	0.9
340	Piedmont Natural Gas	100.6	38 1/8	2.86	4.7
338	Pier 1 Imports	101.2	11 1/4	0.78	0.4
469	Pilgrim's Pride	68.8	6 3/4	NA	0.0
NR	Pinkerton's	NA	17 3/4	1.61	0.0
995	Pinnacle West	-28.8	19 3/4	1.90	0.0
979	Pioneer Financial Svs	-25.0	6	0.88	0.0
236	Pioneer Hi-Bred Intl	142.9	25 1/2	1.73	1.9
351	Pitney Bowes	97.4	37 3/4	2.30	2.1
707	Pittston	28.8	12 1/8	1.56	2.3
877	Pittway	-7.0†	38 1/8	NA	1.6
869	Ply Gem Industries	-4.5	10 1/2	0.90	1.1
585	PNC Financial	49.7	27 1/8	2.55	4.1
674	Polaroid	34.4	31 3/4	2.68	1.9
79	Policy Management Sys	297.4	76 1/2	3.01	0.0
938	Pope & Talbot	-18.1	14 3/4	0.93	5.2
904	Portland General	-10.6	19	1.71	6.3
497	Potlatch	62.8	46	3.61	3.3
801	Potomac Electric	9.7	24	1.96	6.7
413	PPG Industries	81.9	60 1/4	4.52	3.3
NR	Praxair	NA	16 1/2	1.21	1.5
1040	Precision Castparts	-44.2	19 1/4	2.55	0.6
539	Premark Intl	56.4	35	4.29	2.9
303	Premier Bancorp	112.5	14 1/8	1.68	0.0

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
334	Premier Industrial	104.2†	38 1/8	1.82	1.3
1029	Preston	-39.0	6 1/4	0.59	0.0
599	Price Co	29.8	42 1/2	2.67	0.0
356	Primerica	96.6	44	5.51	1.8
219	Procter & Gamble	153.0	54	2.90	2.0
207	Progressive	161.5	26 1/8	4.82	0.7
NR	Promus Cos	NA	46 3/8	2.11	0.0
260	Protective Life	130.6	28 1/4	3.28	3.3
307	Provident Life & Acc	111.0	26 3/8	3.16	3.8
1079	PS Group	-60.3	9 1/8	-0.01	0.0
520	PSI Resources	59.6	18 3/4	1.77	6.0
667	Public Service Colo	35.2	27 3/8	2.46	7.3
1005	Public Service NM	-32.0	12 3/4	0.87	0.0
744	Pub Svc Enterprise	21.5	29	2.46	7.4
649	Puget Sound P&L	38.4	26 1/8	2.21	6.9
757	Pulitzer Publishing	19.4	34 1/8	2.08	1.6
505	Quaker Oats	61.6†	67 1/4	3.92	2.9
886	Quaker State	-27.0	11 1/8	1.10	7.2
153	Quanex	202.0	18 1/2	1.41	2.8
47	Quantum	430.1	14 1/8	2.03	0.0
1094	Quantum Chemical	-72.0*	15 1/8	-0.41	0.0
530	Qwestar	58.1	25 1/2	1.80	4.2
50	QVC Network	410.3	24 1/8	1.45	0.0
634	Ralston Purina	41.7	45 1/4	3.41	2.7
892	Raychem	-9.0	40 1/2	0.62	0.8
681	Raytheon	33.6	44 1/2	5.25	2.9
NR	Reader's Digest Assn	NA	54 1/8	2.26	2.2
163	Reebok International	196.5	31 1/2	3.10	1.0
862	Reliance Group	-2.2	5 1/8	1.00	5.7
587	Republic New York	49.6	44 3/8	4.65	2.3
NR	Resorts Intl	NA	1 1/8	NA	0.0
1128	Rexene	-97.9†	2 1/8	NA	0.0
164	Reynolds & Reynolds	195.5	48 3/4	3.20	2.1
833	Reynolds Metals	3.1	49 1/8	3.85	3.7
NR	Rhone-Poulenc	NA	23 1/2	2.46	5.4
58	Rhone-Poulenc Rorer	321.9	50 1/8	3.76	1.6
269	Richfood Holding	127.0*	17 1/8	1.72	0.8
1054	Riggs National	-49.3	9 1/4	0.45	0.0
848	Riser Foods	0.0*	7	1.20	0.0
704	Rite Aid	29.2	23 1/4	1.82	2.4
NR	RJR Nabisco	NA	9 1/4	0.78	0.0
308	Roadway Services	110.9	67 1/2	4.34	1.9
1120	Robertson-Ceco	-92.6	1 1/8	NA	0.0
498	Rochester G&E	62.7	24	2.02	7.0
578	Rochester Telephone	50.3	31 3/4	2.25	4.9
664	Rockwell Intl	36.2	25 1/8	2.48	3.6
452	Rohm & Haas	71.5	54 1/4	3.97	2.4
1000	Rohr	-30.2	11 1/4	2.06	0.0
277	Rollins	123.8	22 3/4	1.21	1.8
1080	Rose's Stores	-60.5	3 3/4	0.37	0.0
55	Ross Stores	330.3	17 3/4	1.52	0.0
968	Rouse	-22.4	15 1/8	NA	4.0
314	RPM	109.4	25 1/8	1.42	2.9
200	Rubbermaid	165.3	33	1.34	1.2
295	Ruddick	115.4	18 3/8	1.49	2.1
246	Russell	138.4	29 1/2	2.44	1.2
882	Ryder System	-7.5	24 1/2	1.89	2.4
944	Rykooff-Sexton	-18.8	14 1/8	1.60	2.7
565	Ryland Group	51.8	21 1/4	2.51	2.8
341	Safeco	100.5	50 1/8	4.63	2.9
810	Safeguard Scientifics	8.5	16	NA	0.0
673	Safety-Kleen	34.4	29 1/8	1.34	1.2
NR	Safeway	NA	13 3/4	1.32	0.0
NR	St Joe Paper	NA	36 3/4	1.60	0.5
550	St Paul Cos	54.3	71	7.82	3.8
518	Salant	44.4	9 3/4	NA	0.0
229	Sallie Mae	145.6	69 1/4	4.93	1.7
379	Salomon	89.8	37 1/4	3.93	1.7

Note: Except as indicated, price changes are from Dec. 31, 1987 to Nov. 18, 1992. NR: Not ranked because of merger, spinoff, reorganization, new issue or conversion to stock company. *Four-year price change. †Three-year price change. ‡Does not reflect special cash dividend paid or distribution of stock in another company. NA: Not available. def: Deficit.

Sources: Forbes; Media General; Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan, via Lotus One Source.

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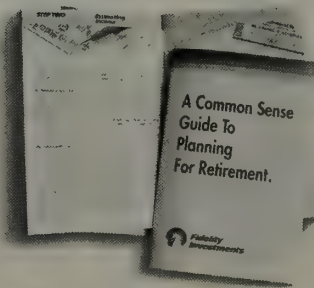
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WHO'S WHERE IN THE STOCK MARKET

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
513	San Diego G&E	60.5	23 1/8	1.82	6.0
NR	Santa Fe Pacific	NA	13 1/4	1.03	0.8
108	Sara Lee	241.8	30 1/8	1.40	1.9
291	Savannah Foods	117.7	15 1/8	1.45	3.5
630	Scana	42.5	40 1/8	3.36	6.6
622	SCEcorp	43.9	43 1/8	3.71	6.4
174	Schering-Plough	183.5	66 1/8	4.19	2.3
301	Schlumberger	113.0	61 1/4	3.57	2.0
NR	Scholastic	NA	33 1/4	1.90	0.0
216	A Schulman	154.8	27 1/4	1.66	1.0
559	Schultz Sav-O Stores	52.7	14 1/4	1.80	1.1
40	Charles Schwab	468.8	22 1/4	1.62	1.1
789	SCI Systems	13.2	15	0.82	0.0
144	Scientific-Atlanta	214.4	35 1/8	1.20	0.5
837	Scott Paper	2.1	36	3.39	2.2
562	EW Scripps	52.6*	26 1/8	1.34	1.5
274	Seaboard	124.3	17 1/8	NA	0.3
726	Seagate Technology	25.2	18 1/8	2.74	0.0
387	Seagram	86.2	25 1/8	2.44	2.2
286	Sealed Air	120.8†	22 1/2	1.36	0.0
711	Sears, Roebuck	28.0	42 1/8	4.81	4.7
927	Seaway Food Town	-15.1	11 1/4	NA	3.2
474	Selective Insurance	67.8	21 1/4	2.11	5.3
985	Sequa	-25.9	36 1/4	3.36	1.6
758	Service Corp Intl	19.1	17 1/8	1.31	2.3
249	Service Merchandise	135.0†	11 1/4	1.13	0.0
867	Shared Medical Sys	-4.1	20 1/8	1.42	4.1
30	Shaw Industries	546.1	26 1/4	1.57	1.1
963	Shawmut National	-22.2	16 1/4	1.44	0.0
240	Sherwin-Williams	141.0	29 1/8	1.90	1.5
167	Shoney's	193.8*	23 1/8	1.38	0.0
NR	ShopKo Stores	NA	15 1/2	1.77	2.8
215	Sigma-Aldrich	156.2	57	2.19	0.5
464	Signet Banking	69.5	40 1/4	3.93	3.0
127	Silicon Graphics	227.7	26 1/8	1.16	0.0
NR	Sizzler Intl	NA	10 1/8	0.86	1.6
695	Skyline	30.8	17	0.77	2.8
NR	Smart & Final	NA	24 1/8	1.28	0.8
287	AO Smith	120.7	30 1/8	3.83	2.6
1063	Smith Corona	-52.7†	6 1/8	0.64	3.0
747	Smith International	21.2	7 1/8	0.50	0.0
97	Smithfield Foods	257.0	20 1/4	2.15	0.0
580	Smith's Food & Drug	50.0†	36	2.19	1.2
315	JM Smucker	109.3	26 1/8	1.44	1.6
959	Snap-on Tools	-21.2	27 1/8	2.19	3.9
403	Society	83.8	59 1/4	6.41	3.3
15	Soletron Corp	767.7†	32	1.47	0.0
364	Sonata	94.5	44 1/2	2.34	4.5
299	Sonoco Products	114.1	45 1/2	2.91	2.2
879	Sony	-7.1	31 1/8	1.60	1.1
819	Sotheby's Holdings	6.8*	10 1/8	0.60	5.6
1027	Southdown	-38.7	10 1/8	0.34	0.0
511	Southern Co	60.9	36	3.05	6.1
631	So New Eng Telecom	42.4	32 1/8	2.71	5.5
NR	Southland	NA	3 1/4	NA	0.0
326	SouthTrust	107.3	24 1/4	2.69	3.2
39	Southwest Airlines	471.9	25 1/2	1.51	0.2
1010	Southwest Gas	-33.7	13 1/2	1.50	5.2
361	Southwestern Bell	95.6	67 1/4	4.64	4.3
700	Southwestern Pub Svc	29.6	30 1/8	2.53	7.2
461	Spiegel	70.1	14 1/4	1.08	2.5
767	Springs Industries	17.8	35 1/8	3.54	3.4
320	Sprint	108.1	25 1/8	2.14	3.9
948	SPS Technologies	-19.6	19 1/2	NA	6.6
994	SPX	-28.7†	20 1/2	1.69	2.0
333	Std Commercial	104.7	29	3.50	1.8
93	Standard Fedl Bank	270.2	21 1/4	3.15	2.2

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
916	Standard Motor Prods	-12.6	12 1/8	0.92	2.6
702	Standard Products	29.4	28 1/8	2.83	2.2
866	Standard Register	-3.8	19 1/4	1.47	3.1
225	Standex International	149.6	35 1/4	2.80	2.4
280	Stanhome	123.3	33 1/2	2.87	3.0
616	Stanley Works	44.9	37 1/2	2.77	3.5
139	Staples	216.6†	38 1/4	1.10	0.0
74	State Street Boston	300.0	40	2.28	1.1
532	Stepan	57.5	31 1/2	3.80	2.5
1098	Sterling Chemicals	-75.2*	4	0.26	2.0
8	Stewart & Stevenson	1082.1	33 1/2	1.72	0.6
961	Stone Container	-21.4	18 1/8	0.99	0.0
NR	Stop & Shop Cos	NA	16 1/8	1.30	0.0
768	Storage Technology	17.3	22	2.89	0.0
493	Stratus Computer	63.9	34	3.06	0.0
698	Strawbridge	30.0	23 1/4	3.25	4.6
49	Stride Rite	410.7	20 1/4	1.68	1.6
151	Summit Health	207.9	7 1/8	0.53	0.7
964	Sun Co	-22.2*	25	1.44	7.2
377	Sun Microsystems	90.3	31 1/8	2.17	0.0
NR	Sunbeam/Oster	NA	15 1/8	0.93	0.3
424	Sundstrand	78.8	37 1/8	3.52	3.2
288	SunTrust Banks	119.2	40	3.57	2.8
1022	Super Food Services	-37.3	9 1/4	1.04	3.7
402	Supervalu	83.9	32 1/8	2.61	2.4
524	Syntex	59.4	25 1/2	2.40	4.1
83	Sysco	288.9	26 1/8	1.10	1.1
1093	Talley Industries	-72.0	3 1/4	NA	0.0
217	Tambrands	153.5	68 1/4	3.58	2.2
1052	Tandem Computers	-49.1	14	0.91	0.0
1084	Tandon	-64.3	5 1/8	NA	0.0
936	Tandy	-17.4	27 1/4	2.63	2.2
72	TBC	309.5	20 1/4	1.19	0.0
87	TCF Financial	280.0	26 1/8	3.10	1.9
62	Tech Data	342.9	23 1/4	1.46	0.0
417	TECO Energy	80.9	40 1/4	2.77	4.5
942	Tecumseh Products	-18.6	52 1/2	6.88	3.0
343	Tejas Gas	100.0*	32 1/2	2.39	0.0
939	Tektronix	-18.2	20 1/4	1.70	3.0
496	Tele-Communications	63.0	19 1/4	0.38	0.0
NR	Teledyne	NA	19 1/8	2.02	4.2
318	Teleflex	108.3	31 1/4	2.30	1.3
347	Temple-Inland	99.0	48	4.21	2.0
924	Tenneco	-14.2	34 1/8	2.97	4.7
917	Teradyne	-13.2	14	1.19	0.0
830	Terex	4.2	10	1.49	0.0
1004	Terra Industries	-31.5	4 1/8	0.65	0.0
1090	Tesoro Petroleum	-69.3	3 1/8	-2.00	0.0
509	Texaco	61.1†	60	4.49	5.3
969	Texas Industries	-22.7	21 1/8	1.85	0.9
912	Texas Instruments	-11.9	49 1/8	4.07	1.5
536	Texas Utilities	56.9	42 1/8	3.50	7.2
415	Textron	81.2	41	4.35	2.7
133	Thermo Electron	222.9	44	2.65	0.0
749	Thiokol	21.0†	15 1/8	3.16	2.5
738	Thomas & Betts	22.1	63 1/2	4.10	3.5
1034	Thomas Industries	-40.7	8 1/4	NA	4.6
9	Thorn Apple Valley	1004.3	27	4.17	0.9
814	3Com	8.1	21 1/8	1.21	0.0
85	Tidewater	285.0	19 1/4	1.12	0.8
323	Tiffany	107.8	28 1/4	1.89	1.0
688	Time Warner	32.5	27 1/4	-0.50	1.0
929	Times Mirror	-15.3	30 1/8	1.91	3.6
907	Timken	-11.6	26 1/8	1.59	3.8
437	TJX Cos	75.6†	27	1.55	1.7
NR	TNT Freightways	NA	20	1.48	1.4
143	Torchmark	214.5	51 1/8	3.89	2.1

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Sources: Forbes; Media General; Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan, via Lotus One Source.

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
823	Toro	5.8	16	0.82	3.0
353	Tosco	97.1	17¼	2.44	3.5
190	Toys 'R' Us	171.4	38	1.78	0.0
979	Trans World Music	-25.0	12¼	1.88	0.0
611	Transamerica	46.0	43½	4.31	4.6
1046	Transco Energy	-46.6	14¾	1.13	4.0
1016	Travelers	-35.2	22¼	1.97	7.0
838	Tredegar Industries	1.6†	16½	1.79	1.5
781	Tribune	14.9	47½	2.61	2.0
697	Trinity Industries	30.3	33½	2.63	2.4
1012	Trinova	-34.4	20½	1.65	3.3
802	TRW	9.7	52¼	4.25	3.6
1117	Tucson Electric	-91.9	4½	-0.74	0.0
37	Turner Broadcasting	489.7	21½	0.58	0.2
1073	Turner Corp	-55.8	7½	NA	0.0
921	TW Holdings	-13.9†	3½	-0.02	0.0
129	20th Century Inds	227.6	28½	2.17	1.8
476	Tyco Laboratories	67.6	38½	2.45	1.0
107	Tyco Toys	244.9	14¾	1.72	0.7
105	Tyson Foods	245.6	22¼	1.32	0.2
480	UAL	66.1	118¾	8.13	0.0
392	UGI	85.3	23¾	1.71	5.5
909	UJB Financial	-11.8	19½	1.60	3.1
NR	Ultramar	NA	16¼	2.63	6.6
970	UNC	-22.8	5½	0.70	0.0
44	Unifi	448.2	38½	2.40	1.6
419	Unilever NV	80.3	102¾	8.95	2.2
895	Union Bank	-9.7	26½	3.54	5.2
739	Union Camp	22.1	44¼	2.87	3.5
NR	Union Carbide	NA	14½	1.01	5.2
494	Union Electric	63.7	36½	2.93	6.3
306	Union Pacific	112.0	57¼	4.06	2.6
279	Union Texas Petrol	123.4	17½	1.50	1.1
1097	Unisys	-74.7	8½	1.37	0.0
2	United HealthCare ✓	2788.9	52¾	2.03	0.0
500	United Illuminating	47.9	39¾	3.53	6.4
208	US Bancorp	161.3	24½	2.50	3.1
3	US Healthcare ✓	1700.0†	45	2.17	1.2
1092	US Home	-70.8	7½	0.50	0.0
873	US Shoe	-5.4	13½	1.22	4.0
18	US Surgical	733.1	65½	3.19	0.5
897	United Stationers	-9.9	16	1.10	2.5
728	United Technologies	25.1	42¾	5.39	4.2
NR	Unitrin	NA	36¼	2.96	3.3
572	Univar	50.7	13	0.87	2.3
398	Universal	84.6†	28½	2.38	2.8
166	Universal Foods	195.3	34½	2.34	2.6
162	Universal Health	197.1	13	1.56	0.0
439	Unocal	75.2	24¾	1.41	2.8
48	UNUM	428.4	48½	3.68	1.4
847	Upjohn	0.4	30½	3.31	4.9
632	US West	42.3	36¾	3.20	5.8
1076	USAir Group	-60.0	13½	0.07	0.0
1065	USF&G	-52.9	13¾	0.28	1.5
1112	USG	-88.9*	5½	NA	0.0
971	Uslico	-23.3	17¼	2.14	5.8
456	USLife	71.1	32½	3.73	3.7
52	UST Inc	405.6	34½	1.65	2.3
NR	USX-Marathon	NA	16½	0.94	4.2
NR	USX-US Steel	NA	28¾	2.79	3.5
358	UtiliCorp United	96.3	27¼	2.01	5.8
70	Valero Energy	315.0	20¾	3.03	2.1
1043	Valhi	-45.9	5	NA	4.0
322	Valley National	107.9	55½	4.12	0.0
99	Valmont Industries	255.0	17¼	1.26	1.5
179	Valspar	180.0	35½	1.80	1.0
NR	Value City Dept	NA	21¼	1.19	0.0
522	Varian Associates	59.5	38½	3.01	0.9

Rank	Company	5-year price change %	Recent price	EPS 1993 estimate \$	Current yield %
954	Varity	-20.5	18½	2.07	0.0
NR	Venture Stores	NA	27¼	3.01	2.1
278	VF	123.5	54¼	3.88	2.2
73	Viacom	308.3	37	1.10	0.0
110	Vicorp Restaurants	238.8	20¼	2.20	0.0
NR	Vigoro	NA	21	2.30	3.2
1050	Village Super Market	-48.1	7	NA	0.0
173	Vishay Intertech	184.4	32¾	2.26	0.0
1000	VLSI Tech	-30.2	7½	0.59	0.0
1038	Volt Info Sciences	-43.3	9½	NA	0.0
889	Volvo	-8.5	43¼	2.68	5.2
119	Vons Cos	233.9	24½	2.07	0.0
642	Vulcan Materials	39.7	45¼	3.01	2.6
517	VWR	60.0	14	0.98	2.9
569	Waban	51.0†	18½	1.66	0.0
248	Wachovia	135.5	65¼	5.40	3.0
489	Wackenhut	64.7	27¾	2.32	2.6
57	Wal-Mart Stores	373.1	61½	2.11	0.3
188	Walgreen	173.2	42	2.00	1.4
655	Wallace Computer Svcs	37.9	26½	1.99	2.2
1127	Wang Laboratories	-96.2	½	0.15	0.0
NR	Warnaco Group	NA	34½	2.84	0.0
319	Warner-Lambert	108.1	70¼	5.26	2.9
481	Washington Gas Light	65.9	37½	2.74	5.8
115	Washington Mutual	235.8	31½	3.17	1.8
865	Washington National	-3.7	23	2.01	4.7
759	Washington Post	19.1	222¾	13.99	1.9
328	Waste Management	106.0	38¾	2.07	1.3
1031	Waxman Inds	-40.0	3¼	0.44	2.1
1086	Weirton Steel	-66.3†	3¼	0.29	0.0
997	Weis Markets	-28.9	25½	1.90	2.7
462	Wellman	69.9	19¼	2.05	0.6
449	Wells Fargo	72.1	74	8.18	2.7
243	Wendy's Intl	140.0	13½	0.75	1.8
1058	Western Digital	-51.5	7½	0.64	0.0
540	Western Publishing	56.3	18¾	1.26	0.0
668	Western Resources	34.8	30½	2.53	6.2
1074	Westinghouse	-56.3	10½	1.78	6.6
1025	Westmoreland Coal	-37.8	11½	0.64	2.8
718	Westvaco	26.6	35½	2.87	3.1
577	Weyerhaeuser	50.5	38½	2.77	3.1
NR	Wheeling Pittsburgh	NA	4¼	NA	0.0
485	Whirlpool	65.1	40¼	3.42	2.7
NR	Whitman	NA	14	1.03	1.9
568	Wicor	51.3	26	2.33	5.8
506	Willamette Inds	61.5	35½	2.90	2.4
658	Willcox & Gibbs	37.3	11½	0.98	0.0
514	Williams Cos	60.4	37½	2.77	4.1
131	Winn-Dixie Stores	223.7	71½	3.05	1.8
933	Winnebago Industries	-16.7	6½	0.24	0.0
458	Wisconsin Energy	70.8	25½	1.98	5.1
566	Wisconsin Public Svc	51.5	31½	2.31	5.5
660	Witco	37.1	45¼	3.76	4.0
495	WLR Foods	63.4*	19¼	0.93	1.7
385	Woolworth	87.7	32¾	2.83	3.5
325	Worthington Inds	107.8	23¾	1.42	2.1
580	WPL Holdings	50.0	32¾	2.42	5.7
1114	WPP Group	-91.1	1¾	0.43	0.0
128	Wm Wrigley Jr	227.7	37¼	1.40	1.8
547	Wyle Laboratories	55.1	19	1.62	1.5
1083	Wyman-Gordon	-64.2	4¼	0.40	0.0
666	Xerox	35.5	76¼	6.68	3.9
827	Yellow Freight Sys	4.9	29¼	1.84	3.2
NR	York Intl	NA	30¼	2.63	0.1
1077	Zenith Electronics	-60.2	5½	-0.18	0.0
733	Zenith National Ins	22.8	16¼	1.83	6.0
380	Zurn Industries	89.5	36¼	2.67	2.4

Note: Except as indicated, price changes are from Dec. 31, 1987 to Nov. 18, 1992. NR: Not ranked because of merger, spinoff, reorganization, new issue or conversion to stock company. *Four-year price change. †Three-year price change. ‡Does not reflect special cash dividend paid or distribution of stock in another company. NA: Not available. def: Deficit.

Sources: Forbes; Media General; Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan, via Lotus One Source.

Who's where in the industry groups

Even though the recession officially ended last year, the five-year performance of all business sectors slipped a bit.

By Robert Rosenstein

For the third year in a row, the food, drink & tobacco industry had the highest five-year return on equity of any sector in our industry rankings. But the group's 18.7% profitability was a drop from 20% the year before—a pattern followed by the 20 other industry groups.

Only three sectors—health, insurance and financial services—earned a higher return over the latest 12 months

than over the five years. Travel shows the biggest improvement in 12-month profitability, from 0.2% to 5.1%.

Although latest 12-month sales of the median survey company rose 3.4%, compared with 3.7% a year earlier, corporate America did a far better job turning revenues into profits. Latest 12-month earnings for the median firm rose 7.6%, versus a decline of 5.9% a year earlier.

Industry (number of companies)	Profitability					Growth						Sales	Net income	Profit margin
	Return on equity			Return on capital latest 12 mos	Debt/ capital	Sales			Earnings per share					
	rank	5-year average %	latest 12 mos %			rank	5-year average %	latest 12 mos %	rank	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Food, drink & tobacco (63)	1	18.7	15.4	11.4	31.6	9	8.9	5.3	1	12.5	8.0	1,952	59	3.7
Food processors (44)		18.7	15.2	11.4	28.1		8.2	4.1		12.1	7.0	1,379	42	3.5
Beverages (9)		18.0	12.3	9.4	28.3		10.3	11.7		12.3	5.0	4,796	152	6.2
Tobacco (10)		20.0	19.2	12.5	45.8		12.2	6.1		16.7	30.0	2,173	187	3.9
Consumer nondurables (53)	2	17.2	14.6	11.9	27.8	5	10.7	8.9	12	NM	10.5	1,091	43	4.8
Personal products (21)		17.6	17.2	12.7	21.2		10.7	5.7		7.1	9.6	1,649	60	6.5
Apparel & shoes (18)		15.9	13.9	11.5	27.1		14.6	10.9		NM	14.0	884	25	3.6
Textiles (7)		8.7	13.9	10.5	39.6		6.7	8.8		NM	-13.0	1,104	27	3.6
Photography & toys (7)		14.4	14.1	12.0	28.1		8.1	20.4		NM	-16.1	1,850	128	4.9
Health (61)	3	16.2	17.3	13.6	22.5	4	11.8	11.3	2	11.2	15.7	1,686	90	7.0
Drugs (22)		22.4	21.0	16.3	11.7		10.5	11.8		16.0	12.1	4,538	431	10.3
Health care services (21)		15.5	14.4	10.5	35.7		12.1	12.1		-10.1	30.1	1,165	44	3.1
Medical supplies (18)		16.1	18.7	15.8	19.3		12.0	9.4		7.1	23.8	1,039	96	7.4
Chemicals (52)	4	14.4	14.3	10.1	30.9	7	9.5	2.8	6	-9.7	11.6	1,383	58	5.0
Diversified (16)		11.0	6.3	6.0	29.9		7.4	-0.7		NM	18.0	2,922	52	2.8
Specialized (36)		17.7	16.8	11.9	30.9		9.8	5.1		8.0	11.0	1,042	59	6.2
Retailing (105)	5	13.9	12.4	10.0	29.1	2	13.4	9.6	4	-6.5	11.3	1,102	29	2.1
Department stores (9)		10.9	5.9	6.0	44.2		5.7	3.5		NM	3.3	4,496	219	2.4
Apparel (17)		17.7	13.6	10.4	23.6		13.6	11.5		8.6	10.7	1,398	31	3.1
Consumer electronics (9)		15.7	8.8	8.6	15.0		36.0	23.6		NM	3.2	900	10	1.0
Drug & discount (30)		13.9	14.2	10.3	35.9		11.4	7.7		-6.5	13.0	1,676	30	1.8
Home improvement (5)		8.4	4.4	4.8	27.7		22.7	17.7		-16.8	35.2	3,157	29	0.8
Home shopping (9)		11.9	18.0	13.4	47.7		9.1	3.4		NM	2.0	1,010	33	3.5
Specialty retailers (26)		13.7	13.0	10.9	19.4		17.4	13.0		10.1	9.6	769	17	2.3
Food distribution (52)	6	12.8	11.0	9.1	39.2	13	7.9	1.7	9	-12.2	-3.0	1,409	15	1.0
Supermarkets & convenience (32)		12.6	10.5	7.8	48.5		6.2	0.5		NM	-26.5	1,801	9	0.8
Food wholesalers (7)		11.3	10.6	9.3	32.9		7.5	4.0		NM	5.5	2,431	19	0.8
Restaurant chains (13)		16.0	14.8	11.8	31.2		11.7	7.0		10.1	22.0	1,042	37	4.6
Business services & supplies (60)	7	12.8	9.9	8.9	33.3	11	8.1	4.9	7	-10.7	6.3	718	20	2.7
Business services (22)		14.5	12.1	9.6	33.3		9.0	8.2		6.0	9.5	788	16	2.3
Business supplies (24)		10.8	9.7	9.9	18.7		6.6	3.2		-13.0	1.7	692	23	3.0
Industrial services (7)		12.0	0.4	1.5	42.9		12.5	5.0		NM	-22.1	987	0	0.1
Environmental & waste (7)		10.2	4.6	4.5	42.4		15.5	5.1		NM	-64.3	755	11	1.7
Forest products & packaging (29)	8	12.3	6.3	5.1	37.1	12	7.9	1.7	12	NM	2.7	2,061	59	3.0
Paper & lumber (18)		12.1	4.0	3.9	37.6		7.0	1.3		NM	-17.7	2,190	55	1.9
Packaging (11)		14.2	9.4	7.9	35.7		10.8	3.2		-11.7	13.0	1,800	59	4.4

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NM: Not meaningful. For further explanation, see page 95.

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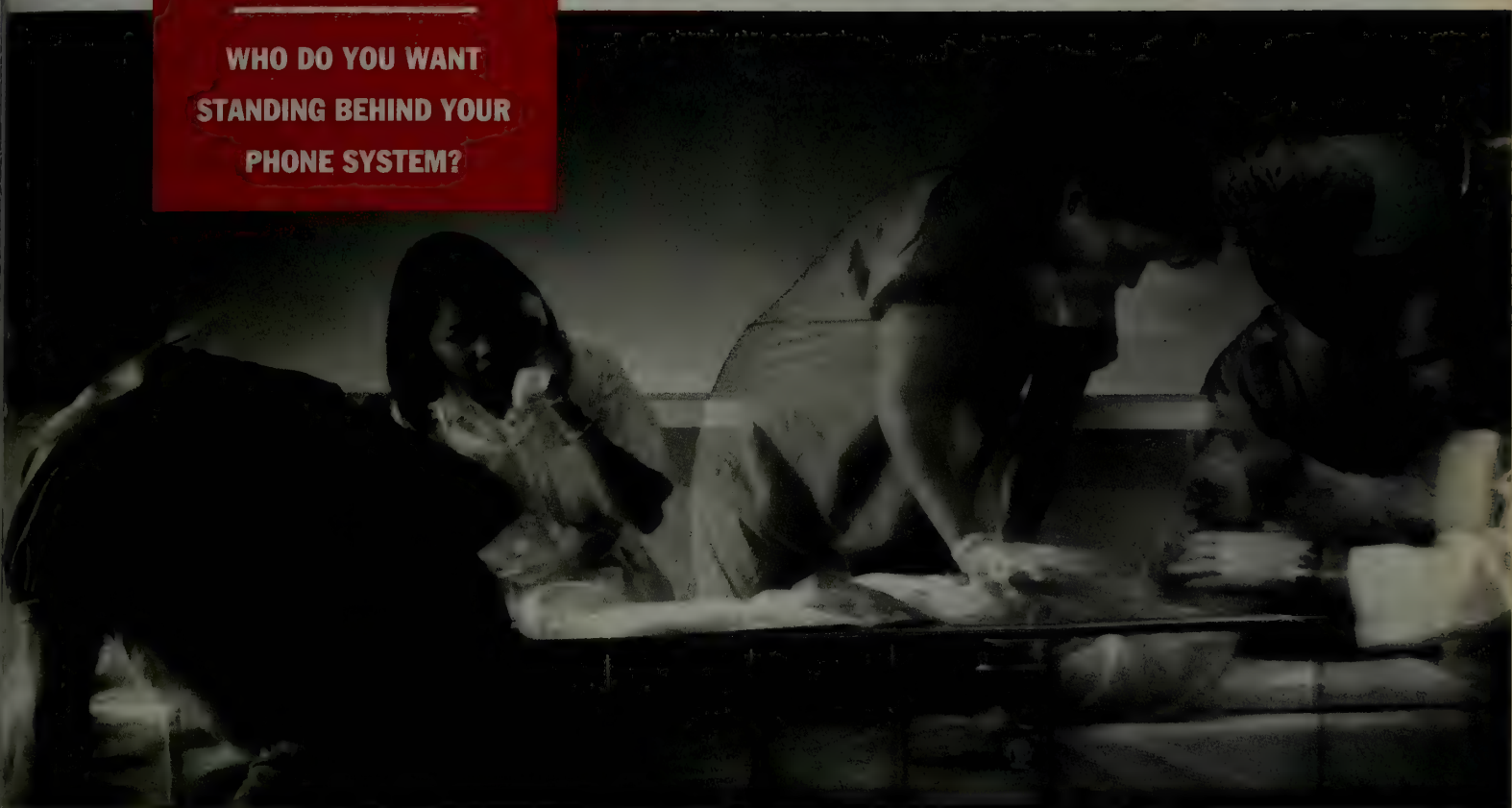
WHO'S WHERE IN THE INDUSTRY GROUPS

Industry (number of companies)	Profitability					Growth						Sales	Net income	Profit margin
	Return on equity			Return on capital latest 12 mos %	Debt/ capital %	Sales			Earnings per share					
	rank	5-year average %	latest 12 mos %			rank	5-year average %	latest 12 mos %	rank	5-year average %	latest 12 mos %	latest 12 mos \$mil	latest 12 mos \$mil	latest 12 mos %
Entertainment & Information (47)	9	12.3	10.1	8.7	27.8	10	8.1	5.5	12	NM	12.1	1,360	38	4.8
Broadcasting & cable (10)		def	0.9	8.1	78.7		15.4	7.0		NM	5.3	1,229	39	3.5
Movies (6)		4.6	6.1	7.3	40.7		16.4	7.5		NM	44.5	2,669	52	2.2
Publishing (26)		12.3	11.2	8.8	22.7		4.6	2.3		NM	14.5	1,357	33	5.6
Advertising (5)		18.6	17.1	15.3	23.8		12.8	12.9		13.4	4.7	1,360	41	3.6
Electric utilities (78)	10	12.2	10.7	6.6	41.2	20	3.9	1.7	8	-11.3	-7.7	1,545	130	9.0
Northeast (23)		11.2	10.8	6.6	41.5		5.2	4.5		-3.6	-0.5	1,649	185	8.7
North central (25)		13.0	10.1	6.3	40.5		2.2	-0.6		NM	-10.3	1,192	89	9.1
Southeast (10)		13.0	11.0	6.8	35.9		2.9	1.8		-0.5	-11.1	2,416	266	11.3
South central (8)		9.0	10.3	6.5	43.7		3.8	2.7		NM	-6.0	2,486	234	9.9
Western (12)		10.4	7.2	5.8	41.8		5.1	4.5		NM	-11.1	1,336	112	6.3
Computers & communications (94)	11	12.2	11.0	8.3	25.8	1	13.7	6.5	10	-17.1	7.6	1,288	56	4.2
Major systems (23)		6.5	3.6	3.9	12.1		14.2	6.3		NM	-19.9	1,778	25	2.3
Peripherals & equipment (38)		9.7	11.3	10.2	27.0		13.9	11.7		-19.3	16.7	895	25	3.0
Software (10)		20.0	17.0	12.5	10.0		22.9	18.6		21.4	31.2	882	63	6.8
Telecommunications (23)		13.5	12.5	8.0	35.4		5.1	3.6		-1.3	5.1	8,175	407	8.5
Insurance (70)	12	11.4	12.5	11.1	17.5	16	6.3	4.2	3	3.6	9.9	1,700	92	6.0
Diversified (18)		9.3	10.5	9.1	17.3		5.8	2.9		1.9	6.2	4,398	173	4.0
Life & health (23)		10.6	12.8	9.9	21.2		7.0	4.1		-9.2	16.4	1,361	72	7.1
Property & casualty (26)		14.9	12.6	11.7	17.0		6.4	6.1		6.6	1.4	1,700	85	6.1
Brokerage (3)		25.8	23.1	22.2	22.2		8.8	4.2		3.6	1.9	1,368	38	6.7
Aerospace & defense (38)	13	11.3	11.1	8.9	31.2	19	4.1	-0.1	12	NM	11.0	1,952	54	3.0
Financial services (102)	14	10.8	13.7	10.6	28.6	8	9.5	-6.0	11	-22.7	17.5	1,608	136	9.0
Multinational banks (10)		5.4	13.7	9.7	46.3		6.3	-6.8		NM	11.8	8,491	336	7.2
Regional banks (55)		12.3	13.7	11.8	20.2		11.2	-6.4		-17.2	17.5	1,440	124	10.1
Thrift institutions (15)		def	8.2	6.9	23.4		-4.5	-14.7		NM	27.6	830	27	4.4
Brokerage & commodity (9)		13.8	22.4	14.8	44.1		8.2	11.1		10.4	49.6	2,684	219	6.8
Lease & finance (13)		16.2	13.8	6.5	68.4		15.0	4.7		15.8	11.8	2,873	163	8.9
Capital goods (60)	15	10.7	10.0	8.8	30.4	6	9.5	0.5	5	-7.2	4.6	1,123	30	3.1
Electrical equipment (16)		17.1	12.3	9.7	42.1		8.1	2.5		7.8	6.7	1,074	57	4.0
Heavy equipment (14)		7.9	7.1	7.0	45.6		9.4	-2.7		NM	-4.2	1,379	26	1.6
Other industrial equipment (30)		10.2	10.2	8.7	28.7		10.0	0.5		-6.0	3.4	958	28	3.1
Metals (36)	16	10.5	2.8	3.1	30.8	15	6.6	-2.3	12	NM	-39.7	1,007	9	1.0
Steel (21)		9.5	2.7	2.7	30.0		2.3	-0.6		NM	-37.6	767	4	0.9
Nonferrous metals (15)		11.3	2.8	3.4	31.3		10.2	-2.7		NM	-81.8	2,162	13	1.2
Energy (78)	17	9.6	6.9	5.7	38.4	17	6.0	-3.8	12	NM	-24.4	1,618	49	2.8
International oils (6)		12.1	6.7	5.6	20.7		7.6	-5.1		NM	-43.8	46,802	1,071	2.8
Other energy (31)		7.0	2.8	3.6	40.8		7.5	-8.6		NM	-76.8	2,039	12	0.6
Oilfield services (6)		8.4	1.1	2.5	18.3		6.5	-4.4		NM	-78.5	3,310	11	1.2
Gas producers & pipeliners (10)		8.1	8.9	6.8	48.6		8.6	0.8		1.0	9.6	1,860	100	3.8
Gas distributors (15)		11.4	10.4	7.4	38.6		-1.1	5.5		NM	7.3	1,064	52	4.4
Integrated gas (10)		7.3	9.5	6.4	41.2		4.2	-2.4		NM	-7.5	1,704	45	4.9
Travel (19)	18	8.0	5.1	5.7	56.1	3	12.5	4.4	12	NM	-20.2	1,316	17	1.1
Airlines (8)		def	def	def	57.4		15.2	6.1		NM	D-D	6,161	-186	def
Hotels & gaming (11)		18.3	11.1	7.9	40.1		8.3	4.4		-17.8	20.9	1,106	65	4.3
Consumer durables (68)	19	7.8	7.3	6.7	31.3	18	5.5	6.7	12	NM	41.0	1,299	31	2.2
Automobiles & trucks (8)		5.9	3.4	3.7	52.5		3.7	8.7		NM	76.8	34,077	187	0.8
Automotive parts (28)		7.9	9.9	7.8	31.1		6.5	6.2		NM	62.5	1,154	31	2.6
Appliances (11)		5.2	4.2	5.6	48.4		10.2	3.8		NM	13.8	1,258	50	1.1
Home furnishings (14)		11.5	9.4	8.4	22.9		7.7	6.6		-16.4	23.4	1,181	25	3.6
Recreation equipment (7)		4.5	3.2	3.3	16.6		-7.3	15.0		NM	40.8	1,031	16	1.3
Transport (24)	20	7.5	3.7	4.8	38.4	14	7.0	2.1	12	NM	-53.9	1,735	19	1.6
Railroads (9)		6.5	2.3	4.4	38.5		2.3	2.1		NM	-33.3	3,335	60	1.7
Trucking & shipping (10)		7.6	7.9	6.3	38.0		9.0	1.7		-26.2	-6.6	827	36	2.8
Air freight (5)		11.6	1.1	2.4	25.1		21.0	4.7		13.6	-86.6	1,451	4	0.4
Construction (43)	21	6.4	2.4	3.7	39.8	21	3.8	3.4	12	NM	-6.8	602	4	0.5
Commercial builders (13)		7.4	3.1	3.7	28.3		7.8	4.3		NM	-7.9	1,060	8	0.6
Residential builders (8)		9.5	8.5	6.3	33.7		-9.0	14.6		NM	78.3	831	24	2.2
Cement & gypsum (9)		6.0	def	0.4	39.8		5.1	-4.8		NM	D-D	505	0	def
Other materials (13)		3.1	def	2.0	51.1		2.7	1.9		NM	P-D	518	-2	def
All-industry medians		12.2	10.7	8.8	31.2		8.1	3.4		-22.7	7.6	1,383	43	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NM: Not meaningful. For further explanation, see page 95.

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COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

This table ranks the 1,249 industry survey companies on five-year earnings growth, five-year stock market performance and five-year return on equity. The last column lists the page of each firm's industry report.

RANK					RANK				
Company	Earnings growth	Stock market	Profitability	Page	Company	Earnings growth	Stock market	Profitability	Page
AAR Corp	516	1026	696	98	American Stores	276	503	441	152
Abbott Laboratories	185	210	33	162	American Tel & Tel	NM	446	647	114
Acme Metals	NM	903	893	170	American Water Works	446	558	697	134
Adia Services	NM	856	646	98	Ameritech	447	553	389	114
Advanced Micro	NM	482	902	114	Ameron	485	804	781	120
ADVO	32	74	249	142	Ames Dept Stores	NM	1130	1138	172
Aetna Life & Cas	520	868	737	166	Ametek	466	791	221	102
Affiliated Pubs	NM	887	884	142	Amgen	**	**	**	162
Aflac	401	313	295	166	Amoco	336	608	573	138
HF Ahmanson	513	883	700	146	AMP	356	755	272	114
Air & Water Tech	NM	1009	1096	98	Amphenol	NM	**	1097	102
Air Express Intl	113	46	82	176	AMR	NM	436	952	178
Air Prods & Chems	337	271	366	106	Amsco International	77	**	**	162
Airborne Freight	147	239	596	176	AmSouth Bancorp	NM	349	479	146
Akzo	502	**	583	106	Anacomp	NM	1017	1105	96
Alaska Air Group	600	742	864	178	Analog Devices	576	793	941	114
Albany International	563	829	522	160	Anchor Bancorp	NM	396	1057	146
Alberto-Culver	263	282	301	130	Andrew	46	117	658	102
Albertson's	125	94	119	152	Angelica	373	816	509	162
Alcan Aluminium	NM	925	649	170	Anheuser-Busch Cos	239	442	136	156
Alco Standard	NM	444	333	98	AnnTaylor Stores	**	**	**	172
Alex Brown	NM	300	461	146	Anthem Electronics	22	90	223	114
Alexander & Alexander	NM	601	707	166	Aon	427	297	340	166
Alexander & Baldwin	NM	825	160	176	Apogee Enterprises	NM	763	430	120
Allegheny	414	400	682	166	Apple Computer	249	657	63	114
Allegheny Ludlum	NM	412	39	170	Applied BioScience	**	**	**	162
Allegheny Power	476	721	536	134	Applied Biosystems	**	**	**	162
Allen Group	NM	102	892	124	Applied Magnetics	NM	1037	1072	114
Allergan	**	647	974	162	Applied Materials	514	96	481	114
Alliant Techsystems	**	**	**	96	Applied Power	NM	440	914	102
Allied Products	NM	1111	1106	102	Arbor Drugs	117	53	239	172
AlliedSignal	NM	350	821	96, 124	Archer Daniels	255	250	447	156
Alltel	246	231	259	114	Arden Group	NM	863	155	152
Alcoa	573	644	728	170	Argonaut Group	132	180	141	166
ALZA	**	**	**	162	Arkia	NM	1049	948	138
AM International	NM	1118	1125	98	Armco	NM	1055	1078	170
AMAX	615	930	326	170	Armstrong World Inds	569	935	625	124
AMC Entertainment	NM	826	1085	142	Arrow Electronics	NM	82	950	114
Amdahl	63	1067	543	114	Arvin Industries	597	627	906	124
Amerada Hess	NM	395	582	138	Asarco	625	941	588	170
America West Airlines	NM	1116	1144	178	Ashland Oil	NM	932	839	138
American Bankers	84	276	494	166	ASK Computer Systems	NM	298	1079	114
American Brands	190	390	166	156	AST Research	NM	51	142	114
American Building	187	368	514	98	Atari	NM	1108	960	114
Amer Business Prods	335	196	423	98	Guy F Atkinson	NM	1036	1073	120
American Cyanamid	324	689	406	162	Atlanta Gas Light	NM	510	654	138
American Electric	NM	765	510	134	Atlantic Energy	NM	607	534	134
American Express	540	857	462	146	Atlantic Richfield	NM	533	165	114
American General	459	501	620	166	Automatic Data	215	270	162	98
American Greetings	214	124	564	142	AutoZone	2	**	57	172
American Home Prods	309	378	2	162	Avery Dennison	NM	705	799	98
American Intl Group	261	252	263	166	Avnet	238	685	828	114
American Maize	NM	414	894	156	Avon Products	NM	268	135	130
American Medical	NM	**	938	162	Avondale Industries	NM	1113	1107	96
American Natl Ins	NM	465	811	166	Aztar	NM	769	921	178
American Oil & Gas	NM	376	1103	138	J Baker	NM	170	327	172
American President	NM	687	930	176	Baker Hughes	34	590	771	114

Growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

RANK

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Company	Growth	Stock market	Profitability	Page	Company	Growth	Stock market	Profitability	Page
Ball Corp	NM	871	644	160	Brown Group	534	975	825	172
Bally Manufacturing	NM	1068	1100	178	Browning-Ferris Inds	546	913	643	98
Baltimore G&E	535	780	669	134	Bruno's	346	811	302	152
Banc One	253	197	284	146	Brunswick	NM	844	910	124
Bancorp Hawaii	221	258	243	146	Burlington Coat	369	149	538	172
Bandag	232	264	22	124	Burlington Industries	NM	**	1146	130
Bank of Boston	NM	842	1046	146	Burlington Northern	NM	470	878	176
Bank of New York	574	383	831	146	Burlington Resources	55	730	769	138
BankAmerica	165	33	397	146	Butler Manufacturing	NM	953	995	120
Bankers Trust NY	NM	327	478	146	Buttrey Food & Drug	**	**	**	152
Banta	NM	195	518	142	BWIP Holdings	I	**	**	102
CR Bard	NM	372	267	162	Cablevision Systems	NM	764	1146	142
Barnes Group	NM	878	584	124	Cabot	143	654	567	106
Barnett Banks	566	584	704	146	Caesars World	363	418	147	178
Baroid	NM	**	958	138	Caldor	**	**	**	172
Bassett Furniture Ind	529	537	867	124	CalFed	NM	1122	1081	146
Bausch & Lomb	389	125	384	162	Calgene	**	**	**	162
Baxter International	425	555	738	162	CalMat	NM	927	556	120
BayBanks	623	859	954	146	Cambridge Biotech	**	**	**	162
Bear Stearns Cos	316	253	228	146	Campbell Soup	NM	155	317	156
Bearings	NM	710	898	102	Capital Cities/ABC	198	706	454	142
Beckman Instruments	471	682	493	162	Capital Holding	NM	237	319	166
Becton Dickinson	370	557	341	162	Cardinal Distribution	157	42	399	162
Bell Atlantic	452	625	465	114	Carl Karcher	NM	679	342	152
Bell Industries	617	951	957	114	Carlisle Cos	NM	551	862	120
BellSouth	469	686	529	114	Carnival Cruise Lines	NM	209	148	178
AH Belo	NM	438	768	142	Carolina Freight	535	1003	964	176
Bemis	170	262	265	160	Carolina Power & Lt	NM	542	559	134
Beneficial Corp	435	448	369	146	Carpenter Technology	111	828	760	170
Bergen Brunswig	155	337	375	162	Carter Hawley Hale	NM	955	1146	172
WR Berkley	NM	171	356	166	Carter-Wallace	357	175	409	130
Berkshire Hathaway	287	112	693	166	Casey's General Store	419	672	528	152
Best Buy Co	NM	80	741	172	AM Castle & Co	NM	669	788	170
Bethlehem Steel	NM	952	1111	170	Caterpillar	NM	923	936	102
Betz Laboratories	179	186	134	106	CBI Industries	25	266	810	120
Beverly Enterprises	NM	472	1039	162	CBS	NM	748	385	142
Big B	NM	678	868	172	CDI	NM	613	652	98
Bindley Western Inds	93	423	535	162	Centel	NM	304	248	114
Biogen	**	**	**	162	Centerior Energy	NM	774	809	134
Birmingham Steel	NM	247	436	170	Centex	NM	100	708	120
Black & Decker	NM	840	837	124	Centocor	**	**	**	162
Blair	254	257	71	172	Central & So West	NM	371	486	134
H&R Block	203	226	92	146	Central Hudson G&E	473	432	689	134
Block Drug	281	285	392	130	Central Maine Power	458	593	603	134
Blockbuster	7	5	44	172	Central Newspapers	NM	846	554	142
Blount	NM	919	796	120	Central Steel & Wire	NM	714	686	170
Boatmen's Bancshs	353	508	601	146	Ceridian Corp	**	991	**	98
Bob Evans Farms	323	408	359	152	Champion Intl	NM	945	833	160
Boeing	98	312	254	96	Charming Shoppes	434	161	276	172
Boise Cascade	NM	1064	882	160	Chase Manhattan	NM	770	1000	146
Borden	381	808	432	156	Chemed	NM	962	195	98
Borland Intl	NM	218	1110	114	Chemical Banking	NM	473	984	146
Boston Edison	503	623	816	134	Chesapeake	NM	719	685	160
Bowater	NM	979	630	160	Chevron	NM	445	740	138
Briggs & Stratton	NM	409	568	102	Chicago & N Western	**	**	**	176
Brinker Intl	74	28	270	152	Chiquita Brands Intl	168	797	308	156
Bristol-Myers Squibb	151	486	64	162	Chiron	**	**	**	162
British Petroleum	**	966	**	138	Chrysler	NM	725	965	124
Broad	NM	310	857	166	Chubb	250	150	271	166
Broken Hill	244	554	172	138	Church & Dwight	204	213	289	130
Brooke Group	NM	1070	1140	156	Cigna	509	729	757	166
Brooklyn Union Gas	483	580	650	138	CILcorp	NM	694	555	134
Brown-Forman	269	235	146	156	Cincinnati Bell	NM	682	480	114

Growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

RANK					RANK				
Company	Growth	Stock market	Profitability	Page	Company	Growth	Stock market	Profitability	Page
Cincinnati Financial	351	58	415	166	Crane	226	563	255	102
Cincinnati G&E	397	571	354	134	Crawford & Co	127	92	107	166
Cincinnati Milacron	NM	950	1099	102	Cray Research	NM	1091	238	114
Cipsco	NM	617	590	134	Crestar Financial	559	579	729	146
Circle K	NM	1131	1132	152	Crompton & Knowles	64	24	91	106
Circuit City Stores	274	60	132	172	Crown Central Pet	NM	836	855	138
Circus Circus	86	55	11	178	Crown Cork & Seal	295	165	455	160
Citicorp	NM	860	1013	146	CRSS	NM	692	944	98
Citizens Utilities	294	428	285	114	Crystal Brands	NM	1101	970	130
Clark Equipment	NM	957	990	102	CSX	NM	275	859	176
Clorox	NM	507	426	130	CUC International	NM	78	1146	172
CMS Energy	NM	696	1053	134	Culbro	637	1072	942	156
CNA Financial	387	467	449	166	Cummins Engine	NM	575	1091	124
Coachmen Industries	NM	598	1092	124	Curtice Burns Foods	591	817	786	156
Coast Savings Finl	NM	1069	1021	146	Cyprus Minerals	NM	499	681	170
Coastal Corp	293	591	665	138	Dairy Mart	NM	872	677	152
Coca-Cola	175	67	17	156	Dana	608	723	767	124
Coca-Cola Bottling	NM	1008	1019	156	Danaher	NM	201	189	124
Coca-Cola Enterprises	NM	926	983	156	Dart Group	633	905	951	172
Colgate-Palmolive	NM	159	279	130	Data General	NM	1059	1063	114
Collaborative Research	**	**	**	162	Dayton Hudson	328	183	336	172
Collagen	**	**	**	162	Dean Foods	311	454	244	156
Coltec Industries	NM	**	1146	96	Deere & Co	NM	792	772	102
Columbia Gas System	NM	1041	1080	138	Delchamps	NM	841	610	152
Columbia Hospital	**	**	**	162	Dell Computer	31	45	47	114
Comcast	NM	556	1130	142	Delmarva Power & Lt	542	713	687	134
Comdisco	NM	896	671	98	Delta Air Lines	NM	624	1045	178
Comerica	81	245	**	146	Delta Woodside Inds	NM	331	207	130
Commerce Bcsbs	258	182	474	146	Deluxe	359	397	83	100
Commerce Clearing	512	1029	246	142	Detroit Edison	NM	238	360	134
Commercial Federal	NM	475	918	146	Dexter	NM	806	773	106
Commercial Intertech	347	639	701	102	Diagnostic Products	**	**	**	162
Commercial Metals	NM	433	719	146	Dial	NM	**	**	130
Commonwealth Ed	NM	910	926	134	Diamond Shamrock	65	317	407	138
Commonwealth Energy	553	597	759	134	Dibrell Brothers	104	34	110	156
Comsat	NM	463	845	114	Diebold	NM	560	751	98
Compaq Computer	128	592	70	114	Digital Equipment	NM	1099	1077	114
CompUSA	**	**	1142	172	Dillard Dept Stores	146	41	322	172
Computer Associates	13	807	192	114	Dime Savings Bank FSB	NM	1089	1114	146
Computer Sciences	223	606	433	114	Walt Disney	279	189	151	142, 178
Computervision	**	**	**	114	Dixie Yarns	NM	987	1002	130
ConAgra	231	176	181	156	Dole	118	580	396	156
Conner Peripherals	21	222	32	114	Dollar General	48	25	558	172
Conseco	11	6	5	166	Dominion Bankshares	603	761	870	146
Consolidated Edison	464	585	533	134	Dominion Resources	NM	620	500	134
Consol Freightways	NM	1035	1016	176	Donaldson	139	111	345	102
Consol Natural Gas	479	720	688	138	RR Donnelley & Sons	428	388	363	142
Consolidated Papers	NM	633	306	160	Douglas & Lomason	NM	370	862	124
Consolidated Rail	NM	154	992	176	Dover	256	646	229	102
Consolidated Stores	533	106	819	172	Dow Chemical	NM	911	168	106
Continental Airlines	NM	1132	1120	178	Dow Jones	578	870	416	142
Continental Bank	NM	515	1023	146	DPL	NM	406	464	134
Continental Corp	NM	992	920	166	DQE	376	198	597	134
Continental Medical	17	203	496	162	Dravo	NM	947	1066	120
Cooper Industries	212	459	520	102	Dresser Industries	66	663	742	138
Cooper Tire & Rubber	80	17	179	124	Drug Emporium	NM	989	692	172
Adolph Coors	580	766	961	156	DSC Communications	NM	113	1062	114
CoreStates Financial	NM	570	411	146	El du Pont de Nemours	NM	518	492	106, 138
Corning	283	132	335	114, 162	Duke Power	415	479	463	134
Costco Wholesale	5	13	273	172	Dun & Bradstreet	421	832	111	142
CPC International	262	230	99	156	Duracell Intl	NM	**	691	130
CPI	119	861	125	172	DWG	NM	389	1065	130
Cracker Barrel OCS	45	7	235	152	Dynatech	505	831	631	114

Growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

RANK					RANK				
Company	Growth	Stock market	Profitability	Page	Company	Growth	Stock market	Profitability	Page
E-Systems	298	610	334	96	Fisher-Price	**	**	**	130
Eagle Food Centers	NM	1082	572	152	Fisher Scientific	**	**	**	98
Eagle-Picher Inds	NM	1115	1118	102	Fleet Finl Group	590	645	824	146
Eastern Enterprises	329	745	703	138	Fleetwood Enterprises	NM	290	606	124
Eastman Kodak	NM	937	755	130	Fleming Cos	418	803	655	152
Eaton	NM	680	468	124	Florida Progress	480	596	517	134
Echlin	NM	609	787	124	Florida Rock Inds	622	783	627	120
Ecolab	NM	520	1068	98	Flowers Industries	NM	821	402	156
Edison Bros Stores	252	98	217	172	Fluor	8	140	320	120
AG Edwards	205	136	213	146	FMC	191	677	1146	106
EG&G	299	741	158	102	Food Lion	89	854	58	152
Egghead	NM	884	885	172	Foodarama Supermkts	NM	999	935	152
El Paso Electric	NM	1110	1123	134	Foodmaker	**	**	**	152
Eljer Industries	NM	1047	**	120	Ford Motor	NM	834	823	124
Emerson Electric	364	603	193	102	Foremost Corp of Amer	564	1007	865	166
Emerson Radio	NM	894	1128	124	Forest City Enterprises	NM	1033	987	120
Engelhard	391	193	843	170	Foster Wheeler	69	293	827	120
Enron	99	227	672	138	Foundation Health	NM	**	1146	162
Enserch	NM	893	982	138	FPL Group	547	717	908	134
Entergy	398	86	842	134	Freeport-McMoRan	545	638	13	106
Enzo Biochem	**	**	**	162	Fremont General	29	181	539	166
Equifax	455	676	262	98	Fruehauf Trailer	**	**	**	124
Equitable Cos	**	**	**	166	Fruit of the Loom	123	12	113	130
Equitable of Iowa	410	63	712	166	HB Fuller	NM	545	551	106
Equitable Resources	382	561	619	138	Fuqua Industries	NM	1078	1004	130
ERLY Industries	NM	1060	1129	156	Gamma Biologicals	**	**	**	162
ESCO Electronics	NM	**	1041	96	Gannett	432	701	233	142
Ethyl	338	523	149	106	Gap	83	23	20	172
Exxon	NM	534	398	138	GATX	97	627	292	146
Fabri-Centers of Amer	41	137	456	172	Gaylord Container	NM	1109	1115	160
Fairchild	NM	876	912	96	Gaylord Entertainment	NM	**	552	142
Family Dollar Stores	174	69	212	172	Geico	438	187	128	166
Fay's	136	365	388	172	GenCorp	587	1071	197	96
Federal Express	NM	740	976	176	Genentech	**	**	**	162
Federal Home Loan Mtg	202	324	87	146	General Cable	**	**	**	102
Federal-Mogul	NM	839	934	124	General Cinema	NM	612	1032	142
Federal Natl Mortgage	12	22	52	146	General Dynamics	NM	329	609	96
Federal Paper Board	234	682	219	160	General Electric	186	425	196	96, 102
Federal Signal	109	66	194	102	General Host	NM	793	911	172
Federated Dept Strs	**	**	**	172	General Instrument	**	**	**	114
Ferro	NM	211	794	106	General Mills	167	184	10	156
FHP International	71	20	93	162	General Motors	NM	845	1038	124
Fieldcrest Cannon	NM	777	1012	124	General Motors EDS	188	156	68	98
Fifth Third Bancorp	268	118	280	146	GM Hughes Electronics	NM	915	968	96
Figgie Intl	NM	990	511	98	General Public Utils	430	401	526	134
Filene's Basement	**	**	**	172	General Re	166	359	206	166
Fina	579	818	716	138	General Signal	NM	778	853	102
Fingerhut Cos	**	**	**	172	Genesco	NM	223	581	172
First American Corp	624	790	1008	146	Genetics Institute	**	**	**	162
First American Finl	634	321	874	166	Geneva Steel	631	**	37	170
First Bank System	NM	743	899	146	Genlyte Group	620	1031	562	102
First Brands	538	629	60	130	Genovese Drug Stores	159	881	112	172
First Chicago	638	457	734	146	Genuine Parts	266	665	170	124
First Empire State	196	126	482	146	Genzyme	**	**	**	162
First Fidelity Bncp	NM	670	836	146	Georgia Gulf	NM	**	25	106
First Financial Mgmt	58	251	422	98	Georgia-Pacific	NM	487	585	160
First Interstate Bncp	NM	824	1031	146	Gerber Products	28	77	85	156
First Mississippi	627	1048	915	106	Getty Petroleum	NM	891	924	172
First of America Bank	439	483	437	146	Giant Food	227	771	161	152
First Tennessee Natl	NM	233	512	146	Gibson Greetings	230	576	251	130
First Union	470	355	489	146	Gillette	178	71	26	130
Firststar	478	185	316	146	Gitano Group	NM	1103	806	130
FirstFed Michigan	616	343	886	146	PH Glatfelter	201	775	139	160

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RANK					RANK				
Company	Growth	Stock market	Profitability	Page	Company	Growth	Stock market	Profitability	Page
Glaxo Holdings	169	191	48	162	Horace Mann Educators	**	**	**	166
GlenFed	NM	1126	1076	146	Geo A Hormel	171	273	325	156
Golden West Finl	411	134	250	146	Horn & Hardart	NM	1102	1134	172
Good Guys	43	35	202	172	Houghton Mifflin	NM	529	586	142
BF Goodrich	NM	820	851	106	House of Fabrics	130	531	477	172
Goodyear	NM	785	802	124	Household Intl	500	661	314	146
Goulds Pumps	308	752	568	102	Houston Industries	486	594	632	134
WR Grace	429	599	503	106	Howell	NM	544	1003	138
WW Grainger	302	363	304	102	Hubbell	306	342	211	102
Granite Construction	319	**	393	120	Hudson Foods	602	348	812	156
Great A&P Tea	NM	988	599	152	Huffy	87	416	337	124
Great Lakes Chemical	52	56	133	106	Hughes Supply	NM	965	962	120
Gt Western Financial	527	874	698	146	Humana	530	650	374	162
Grey Advertising	NM	648	668	142	JB Hunt Transport	412	311	236	176
Grossman's	NM	1023	841	172	Huntington Bchs	368	302	444	146
Grow Group	NM	330	972	106	IBP	NM	614	881	156
Grumman	375	736	732	96	ICF Intl	NM	976	1009	98
GTE	444	374	371	114	ICH	NM	1044	1104	166
Guilford Mills	NM	762	761	130	ICN Biomedicals	**	**	**	162
Gulf States Utils	NM	114	1001	134	ICN Pharmaceuticals	NM	540	1116	162
Hadson	NM	1124	1127	138	IES Industries	392	709	476	134
Hall-Mark Electronics	**	**	1124	114	IGI	**	**	**	162
Halliburton	NM	746	904	138	Illinois Central	**	**	**	176
Handleman	NM	732	297	142	Illinois Power	NM	875	1022	134
Handy & Harman	NM	956	1050	170	Illinois Tool Works	192	399	210	102
MA Hanna	626	316	623	106	IMC Fertilizer Group	NM	890	484	106
Hannaford Bros	189	214	232	152	Imcera Group	42	241	679	162
Hanover Insurance	552	309	622	166	Immucor	**	**	**	162
Hanson	197	619	260	156	Immunex	**	**	**	162
Harley-Davidson	67	10	89	124	Imo Industries	567	1085	826	102
Harman International	588	516	937	124	Imperial Chemical Inds	489	960	473	106
Harnischfeger Inds	37	902	611	102	Imperial Holly	NM	588	587	156
Harper Group	242	455	419	176	Inacom	NM	381	364	172
Harris Corp	NM	703	858	114	Inco	NM	983	43	170
Harsco	NM	756	495	96	Independent Insurance	462	800	743	166
Hartford Steam Boiler	366	244	123	166	Ingersoll-Rand	269	477	553	102
Hartmarx	NM	1106	1051	130	Ingles Markets	NM	931	564	152
Hasbro	NM	88	673	130	Inland Steel Inds	NM	1014	1044	170
Hawaiian Electric	NM	548	717	134	Instrument Systems	NM	74	832	130
Health Care & Retire	**	**	**	162	Integra Financial	NM	386	720	146
HealthTrust	**	**	**	162	Intel	90	206	150	114
Hechinger	532	1039	775	172	Intelligent Electron	10	61	61	172
Heilig-Meyers	301	84	561	124	Interco	**	**	**	124
HJ Heinz	235	345	90	156	Interface	NM	848	521	178
Helene Curtis Inds	NM	148	678	130	Intergraph	450	1062	593	114
Hercules	604	737	877	106	Interlake	NM	1096	946	102
Hershey Foods	305	384	231	156	IBM	NM	1042	765	114
Hewlett-Packard	360	843	429	114	Intl Flavors & Frags	243	212	218	106
Hexcel	611	1061	900	96	Intl Multifoods	NM	574	639	156
Hibernia	NM	1087	1061	146	International Paper	383	604	566	160
Hillenbrand Inds	265	121	199	162	Intl Specialty Prods	**	**	**	106
Hillhaven	**	**	**	162	Intl Technology	NM	848	979	178
Hills Dept Stores	NM	1121	1145	172	Interpublic Group	199	135	180	142
Hilton Hotels	481	731	527	178	Interstate Bakeries	NM	**	**	156
Holly Corp	636	812	8	138	InterTAN	NM	998	981	172
Holnam	NM	**	1048	120	Iowa-Illinois G&E	NM	776	544	134
Home Depot	30	4	80	172	Ipalco Enterprises	472	491	442	134
Home Shopping	NM	922	726	172	Itel	NM	734	1024	114
Homestake Mining	NM	1028	994	170	ITT	331	552	637	166
HON Industries	291	254	96	98	Jacobs Engineering	36	29	131	120
Honda Motor	490	864	784	124	James River Corp Va	607	978	888	130
Honeywell	NM	242	269	102	Jamesway	NM	1075	1027	172
Hook-SuperRx	**	**	**	172	Jefferson-Pilot	314	265	612	166

Growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

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Jenny Craig	**	**	**	172
John Alden Financial	NM	**	**	166
Johnson & Johnson	73	192	75	130, 162
Johnson Controls	NM	492	731	124
Jostens	NM	490	86	172
JWP	103	1045	156	98
Kaman	510	958	702	96
Kansas City P&L	NM	420	579	134
Kansas City Southern	NM	283	818	176
Kaufman & Broad Home	NM	405	245	120
Kellogg	280	194	51	156
Kellwood	539	760	642	130
Kelly Services	NM	662	138	98
Kemper	396	724	605	166
Kennametal	494	949	676	102
Kentucky Central Life	NM	996	919	166
Kerr-McGee	379	784	778	138
KeyCorp	354	232	394	146
Keystone Intl	240	435	313	102
Kimball International	445	716	451	124
Kimberly-Clark	207	261	163	130
King World Prods	107	221	3	142
Kmart	NM	410	458	172
KN Energy	NM	451	896	138
Knight-Ridder	NM	605	241	142
Kohl's	**	**	**	172
Kroger	NM	573	986	152
KU Energy	367	543	381	134
LA Gear	NM	54	84	130
La-Z-Boy Chair	NM	626	537	124
Laclede Gas	488	637	657	138
LADD Furniture	NM	1023	901	124
Lafarge	NM	785	876	120
Lancaster Colony	296	146	298	156
Lance	431	659	214	156
Lands' End	371	753	69	172
Leggett & Platt	NM	205	434	124
Lennar	NM	120	746	120
Leslie Fay Cos	343	267	266	130
Leucadia National	16	26	126	166
LG&E Energy	453	450	549	134
Liberty Corp	440	615	663	166
Life Technologies	**	**	**	162
Lifetime	NM	943	975	162
Eli Lilly	158	504	76	162
Limited	208	156	67	172
Lincoln Electric	519	691	762	102
Lincoln National	NM	447	733	166
Lionel	NM	1119	1131	172
Litton Industries	NM	779	571	96
LIVE Entertainment	NM	1105	1074	142
Liz Claiborne	122	223	46	130
Lockheed	496	651	519	96
Loctite	110	141	118	106
Loews	278	443	190	166
Lone Star Tech	NM	1107	1025	170
Long Island Lighting	448	103	835	134
Longs Drug Stores	349	798	324	172
Longview Fibre	528	427	350	160
Loral	344	643	328	96
Lotus Development	515	1015	208	114
Louisiana Land	NM	835	891	138
Louisiana-Pacific	NM	145	725	160

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Lowe's Cos	606	220	783	172
LSI Logic	NM	898	1030	114
LTV	NM	1104	1146	170
Lubrizol	184	502	200	106
Lukens	149	429	311	170
Lyondell Petrochem	**	782	1	106
M/A-Com	NM	1057	989	114
Mac Frugal's Bargains	497	858	310	172
Magma Copper	NM	468	909	170
MagneTek	24	366	45	102
Manor Care	40	177	300	162
Manpower	NM	848	1122	98
Manville	NM	1053	805	120
Mapco	105	289	105	138
Marion Merrell Dow	145	813	23	162
Mark IV Industries	131	123	101	102
Marriott	583	1006	258	178
Marsh & McLennan Cos	436	407	42	166
Marsh Supermarkets	320	750	401	152
Marshall & Ilsley	384	284	378	146
Marshall Industries	164	234	418	114
Martin Marietta	285	656	112	96
Masco	613	772	734	120
Masco Industries	NM	901	971	124
Mattel	35	27	49	130
Maxtor	599	431	1014	114
Maxus Energy	NM	880	1139	138
Maxxam	NM	138	16	170
May Dept Stores	229	228	215	172
Maytag	561	1020	346	124
MBNA	152	**	**	146
McCaw Cellular	NM	369	1082	114
McClatchy Newspapers	550	690	540	142
McCormick & Co	61	32	117	156
McDermott Intl	NM	595	1036	102
McDonald's	237	292	176	152
McDonnell Douglas	NM	885	747	96
McGraw-Hill	NM	727	373	142
MCI Communications	27	81	77	114
McKesson	568	500	764	162
MCN	555	636	446	138
MDC Holdings	NM	1018	1112	120
Mead	NM	796	721	160
Medco Containment	39	21	541	172
Media General	NM	1056	1029	142
Medical Care America	**	59	351	162
Medtronic	224	64	153	162
Mellon Bank	NM	426	907	146
Melville	348	367	209	172
Mentor Graphics	NM	977	967	114
Mercantile Bancorp	NM	272	750	146
Mercantile Stores	NM	899	557	172
Merck	85	202	6	162
Mercury General	68	101	94	166
Meredith	NM	933	779	142
Meridian Bancorp	536	527	629	146
Merisel	NM	440	330	114
Meritor Savings Bank	NM	1125	1133	146
Merrill Lynch	NM	199	710	146
Merry-Go-Round	76	16	109	172
Fred Meyer	378	168	670	172
Michael Foods	210	652	204	156
Michaels Stores	193	38	501	172

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Company	Growth	Stock market	Profitability	Page	Company	Growth	Stock market	Profitability	Page
Michigan National	NM	788	513	146	Nordstrom	303	411	278	172
MicroAge	NM	420	274	172	Norfolk Southern	141	280	813	176
Micron Technology	NM	712	580	114	Nortek	NM	993	1098	120
Microsoft	18	19	14	114	Northeast Utilities	451	715	563	134
Midlantic	NM	1051	1088	146	No States Power	NM	621	485	134
Midwest Resources	475	815	595	134	Northern Telecom	271	259	425	114
Herman Miller	NM	946	807	98	Northern Trust	NM	109	288	146
Millipore	NM	852	532	162	Northrop	NM	805	467	96
Mine Safety Appliance	399	512	709	98	Norwest	342	104	261	146
Minn Mining & Mfg	318	546	184	98	Novell	14	11	36	114
Minnesota Power & Lt	NM	535	497	134	Nucor	390	130	490	170
Mirage	NM	152	305	178	NWNL	477	393	705	166
Mitchell Energy	23	434	880	138	Nynex	549	722	730	114
MNC Financial	NM	1019	1037	146	Occidental Petroleum	352	1002	1035	138
Mobil	NM	549	607	138	Office Depot	91	31	556	172
Modine Manufacturing	377	296	382	124	Ogden	554	984	574	98
Molecular Biosystems	**	**	**	162	Ohio Casualty	409	471	386	166
Molex	361	404	460	114	Ohio Edison	504	799	680	134
Monsanto	NM	675	531	106	Oklahoma G&E	422	793	391	134
Montana Power	345	525	659	134	Old Kent Financial	413	263	344	146
Moore Corp	491	979	584	98	Old Republic Intl	327	142	379	166
JP Morgan & Co	NM	460	674	146	Olin	NM	888	756	106
Morgan Products	NM	1088	1015	120	Olsten	394	375	252	98
Morgan Stanley	257	147	124	146	Omnicom Group	307	360	198	142
Morrison Knudsen	NM	735	916	120	Oneida	571	853	617	124
Morrison Restaurants	365	294	321	152	Oneok	92	336	722	138
Morton International	386	466	469	106	Oracle Systems	95	156	188	114
Motorola	182	354	530	114	Orange & Rockland	467	641	516	134
Mueller Industries	**	**	**	120	Oregon Steel Mills	26	256	108	170
Multimedia	44	567	1146	142	Orion Capital	264	178	226	166
Murphy Oil	NM	541	905	138	OrNda HealthCorp	**	**	**	162
Musicland Stores	**	**	577	172	Oryx Energy	NM	940	875	138
Nacco Industries	493	373	488	102	Oshkosh Truck	NM	1021	873	96
Nalco Chemical	172	335	95	106	Outboard Marine	NM	886	1043	124
Nash Finch	NM	914	615	152	Overseas Shipholding	275	708	814	176
Nashua	NM	855	804	98	Owens & Minor	NM	95	660	162
National City	362	518	347	146	Owens-Corning	NM	430	1146	120
Natl Convenience	NM	1129	1137	152	Owens-Illinois	NM	**	**	160
National Education	NM	1095	993	98	Oxford Industries	NM	564	798	130
National Fuel Gas	437	478	641	138	Paccar	NM	346	550	124
National Health Labs	60	171	81	162	Pacific Enterprises	NM	1081	980	138, 172
National Intergroup	NM	785	1083	162	Pacific G&E	NM	362	699	134
National Medical	200	693	376	162	Pacific Telesis	460	538	470	114
Natl Semiconductor	NM	822	1095	114	PacifiCare Health	9	1	38	162
National Service	511	773	592	102	PacifiCorp	388	751	410	134
NationsBank	577	169	638	146	PaineWebber Group	NM	255	903	146
Navistar Intl	NM	1066	1040	124	Pall	289	204	256	162
NBD Bancorp	321	357	365	146	Pamida Holdings	NM	**	29	172
NCH	181	391	240	106	Panhandle Eastern	NM	920	1028	138
Neiman Marcus Group	NM	908	1033	172	Paramount Commun	NM	754	230	142
New England Electric	NM	488	506	134	Parker Hannifin	518	974	758	102
New Valley	NM	1123	1146	146	Penn Central	15	900	854	166
NY State E&G	NM	589	621	134	Penn Traffic	NM	352	1143	152
New York Times	585	906	472	142	JC Penney	501	422	560	172
Newell Co	75	36	175	124	Pennsylvania P&L	407	484	452	134
Newmont Mining	NM	809	65	170	Pennzoil	NM	973	1042	138
Niagara Mohawk Power	601	528	869	134	Pentair	272	305	499	102
Nicor	NM	339	296	138	People's Bank	**	1013	1101	146
NIKE	19	14	35	130	Peoples Energy	NM	332	498	138
Nipsco Industries	62	160	634	134	Pep Boys	423	382	540	172
Nissan Motor	216	972	923	124	PepsiCo	150	89	102	152, 156
NL Industries	NM	1100	840	106	Perini	619	1011	969	120
Noland	NM	918	956	120	Perkin-Elmer	NM	653	830	162

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Company	Growth	Stock market	Profitability	Page	Company	Growth	Stock market	Profitability	Page
Perrigo	NM	**	**	162	Reader's Digest Assn	142	**	24	142
Perry Drug Stores	NM	602	1010	172	Reebok International	317	163	100	130
Pet	**	**	**	156	Reliance Group	NM	862	1060	166
Petrie Stores	612	526	945	172	Repligen	**	**	**	162
Petroleum Heat & Pwr	NM	**	1119	138	Republic New York	115	587	624	146
Pfizer	456	122	331	162	Resorts Intl	**	**	**	178
Phelps Dodge	33	394	129	170	Rexene	**	1128	**	106
PHH	312	671	548	98	Reynolds & Reynolds	334	164	191	98
Philadelphia Elec	290	635	706	134	Reynolds Metals	NM	833	414	170
Philip Morris Cos	106	91	41	156	Rhone-Poulenc	570	**	635	106
Philips Electronics	NM	967	1049	124	Rhone-Poulenc Rorer	325	68	152	162
Phillips Petroleum	NM	453	448	138	Richfood Holding	NM	269	177	152
Phillips-Van Heusen	341	43	72	130	Riggs National	NM	1054	1075	146
PHM	82	116	505	120	Riser Foods	NM	848	216	152
Piedmont Natural Gas	NM	340	504	138	Rite Aid	433	704	318	172
Pier 1 Imports	NM	338	413	172	RJR Nabisco	**	**	**	156
Pilgrim's Pride	NM	469	380	156	Roadway Services	183	308	400	176
Pinkerton's	NM	**	97	98	Robertson-Ceco	NM	1120	1126	120
Pinnacle West	NM	995	1064	134	Rochester G&E	NM	498	713	134
Pioneer Financial Svs	NM	979	817	166	Rochester Telephone	424	578	475	114
Pioneer Hi-Bred Intl	124	236	299	156	Rockwell Intl	474	564	372	96
Pitney Bowes	358	351	286	98	Rohm & Haas	NM	452	387	106
Pittston	NM	707	997	176	Rohr	NM	1000	931	96
Pittway	523	877	790	124	Rollins	330	277	21	98
Ply Gem Industries	556	869	850	120	Rose's Stores	NM	1080	1056	172
PNC Financial	558	586	591	146	Ross Stores	153	65	182	172
Polaroid	NM	674	31	130	Rouse	621	968	797	146
Policy Management Sys	126	79	428	114	RPM	284	314	287	106
Pope & Talbot	NM	938	576	160	Rubbermaid	194	200	159	124
Portland General	NM	904	959	134	Ruddick	297	295	466	152
Potlatch	NM	497	542	160	Russell	374	246	349	130
Potomac Electric	482	801	443	134	Ryder System	632	882	939	146
PPG Industries	NM	413	348	124	Rykoff-Sexton	NM	944	792	152
Praxair	**	**	**	106	Ryland Group	598	565	445	120
Precision Castparts	350	1040	277	96	Safeco	420	341	343	166
Premark Intl	NM	539	604	124	Safeguard Scientifics	322	810	290	98
Premier Bancorp	NM	303	1059	146	Safety-Kleen	313	673	253	98
Premier Industrial	259	334	74	102	Safeway	NM	**	1146	152
Preston	NM	1029	1052	176	St Joe Paper	593	**	844	160
Price Co	292	699	187	172	St Paul Cos	163	550	264	166
Primerica	38	356	383	146	Salant	NM	618	1135	130
Procter & Gamble	57	219	201	130	Sallie Mae	112	229	27	146
Progressive	507	207	283	166	Salomon	286	379	645	146
Promus Cos	**	**	**	178	San Diego G&E	461	513	395	134
Protective Life	333	260	598	166	Santa Fe Pacific	NM	**	1094	176
Provident Life & Acc	NM	307	608	166	Sara Lee	148	108	157	156
PS Group	NM	1079	1006	98	Savannah Foods	50	291	143	156
PSI Resources	594	520	154	134	Scana	426	630	377	134
Public Service Colo	442	667	417	134	SCEcorp	468	622	435	134
Public Service NM	NM	1005	999	134	Schering-Plough	116	174	73	162
Pub Svc Enterprise	NM	744	565	134	Schlumberger	70	301	242	138
Puget Sound P&L	443	649	491	134	Scholastic	NM	**	**	142
Pulitzer Publishing	NM	757	9	142	A Schulman	177	216	203	106
Quaker Oats	304	505	130	156	Schultz Sav-O Stores	NM	559	546	152
Quaker State	406	986	929	138	Charles Schwab	4	40	293	146
Quanex	59	153	404	170	SCI Systems	629	789	925	114
Quantum	20	47	104	114	Scientific-Atlanta	NM	144	770	114
Quantum Chemical	NM	1094	829	106	Scios Nova	**	**	**	162
Questar	236	530	666	138	Scott Paper	NM	837	748	130
QVC Network	NM	50	852	172	EW Scripps	339	562	651	142
Ralston Purina	449	634	28	156	Seaboard	140	274	547	156
Raychem	NM	892	1034	114	Seagate Technology	584	726	653	114
Raytheon	288	681	140	96	Seagram	267	387	483	156

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Sealed Air	541	286	917	160	Strawbridge	525	698	718	172
Sears, Roebuck	NM	711	752	166, 172	Stride Rite	49	49	53	130
Seaway Food Town	560	927	744	152	Summit Health	NM	151	848	162
Selective Insurance	NM	474	332	166	Sun Co	NM	964	1018	138
Sequa	NM	985	922	96	Sun Microsystems	88	377	338	114
Service Corp Intl	372	758	766	130	Sunbeam/Oster	**	**	**	124
Service Merchandise	137	249	19	172	Sundstrand	NM	424	390	96
Shared Medical Sys	508	867	421	98	SunTrust Banks	340	288	303	146
Shaw Industries	245	30	115	130	Super Food Services	NM	1022	800	152
Shawmut National	NM	963	1058	146	Supervalu	195	402	220	152
Sherwin-Williams	393	240	282	106	Synbiotics	**	**	**	162
Shoney's	526	167	953	152	Synergen	**	**	**	162
ShopKo Stores	162	**	185	172	Syntex	219	524	7	162
Sigma-Aldrich	160	215	116	106	Sysco	121	83	224	152
Signet Banking	NM	464	793	146	Talley Industries	NM	1093	1121	96
Silicon Graphics	NM	127	977	114	Tambrands	404	217	106	130
Sizzler Intl	332	**	618	152	Tandem Computers	NM	1052	913	114
Skyline	582	695	883	120	Tandon	NM	1084	1069	114
Smart & Final	NM	**	589	172	Tandy	487	936	457	172
AO Smith	618	287	927	124	TBC	94	72	114	124
Smith Corona	581	1063	**	98	TCF Financial	NM	87	1005	146
Smith International	NM	747	1054	102	Tech Data	134	62	178	114
Smithfield Foods	114	97	56	156	TECO Energy	355	417	362	134
Smith's Food & Drug	120	580	315	152	Tecumseh Products	562	942	801	102
JM Smucker	251	315	247	156	Tejas Gas	217	343	727	138
Snap-on Tools	NM	959	294	124	Tektronix	NM	939	985	114
Society	595	403	895	146	Tele-Communications	NM	496	1102	142
Soletron Corp	53	15	120	114	Teledyne	NM	**	79	96
Sonat	521	364	803	138	Teleflex	273	318	281	96
Sonoco Products	380	299	268	160	Temple-Inland	213	347	358	160
Sony	405	879	860	124	Tenneco	NM	924	955	102
Sotheby's Holdings	NM	819	55	172	Teradyne	NM	917	998	114
Southdown	NM	1027	933	120	Terex	NM	830	820	102
Southern Co	NM	511	600	134	Terra Industries	NM	1004	1108	106
So New Eng Telecom	NM	631	545	114	Tesoro Petroleum	NM	1090	1084	138
Southland	NM	**	**	152	Texaco	522	509	459	138
SouthTrust	385	326	361	146	Texas Industries	NM	969	978	170
Southwest Airlines	NM	39	789	178	Texas Instruments	NM	912	1017	114
Southwest Gas	NM	1010	849	138	Texas Utilities	NM	536	846	134
Southwestern Bell	454	361	524	114	Textron	465	415	616	96
Southwestern Pub Svc	463	700	352	134	Thermo Electron	156	133	502	98
Spiegel	544	461	431	172	Thiokol	247	749	312	96
Springs Industries	NM	767	879	124	Thomas & Betts	NM	738	355	114
Sprint	548	320	307	114	Thomas Industries	572	1034	739	102
SPS Technologies	531	948	963	96	Thorn Apple Valley	NM	9	40	156
SPX	NM	994	856	124	3Com	610	814	949	114
Std Commercial	NM	333	777	156	Tidewater	NM	85	**	138
Standard Fedl Bank	NM	93	523	146	Tiffany	78	323	78	172
Standard Motor Prods	586	916	871	124	Time Warner	NM	688	1071	142
Standard Products	517	702	889	124	Times Mirror	605	929	628	142
Standard Register	492	866	633	98	Timken	NM	907	966	102
Standex International	225	225	408	98	TJX Cos	592	437	**	172
Stanhope	228	280	103	130	TNT Freightways	211	**	815	176
Stanley Works	403	616	453	102	Torchmark	277	143	88	166
Staples	NM	139	785	172	Toro	NM	823	932	124
State Street Boston	248	74	222	146	Tosco	51	353	34	138
Stepan	310	532	309	106	Toys 'R' Us	180	190	227	172
Sterling Chemicals	596	1098	18	106	Trans World Music	326	979	127	172
Stewart & Stevenson	101	8	173	102	Transamerica	589	611	754	166
Stone Container	NM	961	427	160	Transco Energy	NM	1046	1070	138
Stop & Shop Cos	**	**	575	152	Travelers	NM	1016	940	168
Storage Technology	NM	768	471	114	Tredegar Industries	**	838	**	170
Stratus Computer	96	493	164	114	Tribune	495	781	711	142

Growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

RANK					RANK				
Company	Earnings growth	Stock market	Profitability	Page	Company	Earnings growth	Stock market	Profitability	Page
Trinity Industries	100	697	575	102	Vigoro	300	**	4	106
Trinova	NM	1012	1047	102	Village Super Market	530	1050	887	152
TRW	NM	802	795	124	Vishay Intertech	218	173	339	114
Tucson Electric	NM	1117	1136	134	VLSI Tech	NM	1000	991	114
Turner Broadcasting	NM	37	1146	142	Volt Info Sciences	NM	1038	996	98
Turner Corp	NM	1073	973	120	Volvo	524	889	724	124
TW Holdings	**	921	**	152	Vons Cos	NM	119	507	152
20th Century Inds	72	129	66	166	Vulcan Materials	NM	642	329	120
Tyco Laboratories	154	476	234	102	VWR	NM	517	186	162
Tyco Toys	NM	107	257	130	Waban	**	569	291	172
Tyson Foods	176	105	137	156	Wachovia	NM	248	420	146
UAL	NM	480	614	178	Wackenhut	135	489	237	98
UGI	NM	392	662	138	Wal-Mart Stores	79	57	50	172
UJB Financial	614	909	838	146	Walgreen	206	188	183	172
Ulramar	**	**	**	138	Wallace Computer Svcs	408	655	439	98
UNC	537	970	866	96	Wang Laboratories	NM	1127	1141	114
Unifi	108	44	121	130	Warnaco Group	NM	**	1146	130
Unilever NV	260	419	275	156	Warner-Lambert	NM	319	62	162
Union Bank	417	895	438	146	Washington Gas Light	NM	481	570	138
Union Camp	NM	739	487	160	Washington Mutual	NM	115	763	146
Union Carbide	NM	**	**	106	Washington National	NM	865	1020	166
Union Electric	NM	494	405	134	Washington Post	NM	759	144	142
Union Pacific	628	306	661	176	Waste Management	282	328	169	98
Union Texas Petrol	NM	279	12	138	Waxman Inds	NM	1031	636	120
Unisys	NM	1097	1117	114	Weirton Steel	NM	1086	1055	170
United HealthCare	NM	2	59	162	Weis Markets	416	997	368	152
United Illuminating	NM	600	872	134	Wellman	102	462	122	106
US Bancorp	233	208	367	146	Wells Fargo	NM	449	357	146
US Healthcare	NM	3	30	162	Wendy's Intl	6	243	776	152
US Home	NM	1092	1113	120	Western Digital	NM	1058	1109	114
US Shoe	315	873	928	172	Western Publishing	557	540	715	142
US Surgical	54	18	98	162	Western Resources	484	668	578	138
United Stationers	551	897	774	98	Westinghouse	NM	1074	943	102
United Technologies	NM	728	947	96	Westmoreland Coal	NM	1025	1007	138
Unitrin	NM	**	822	166	Westvaco	395	718	525	160
Univar	NM	572	695	106	Weyerhaeuser	NM	577	861	160
Universal	173	398	**	156	Wheeling Pittsburgh	**	**	**	170
Universal Foods	222	166	225	156	Whirlpool	499	485	694	124
Universal Health	161	162	808	162	Whitman	47	**	**	156
Unocal	NM	439	753	138	Wicor	NM	568	723	138
UNUM	56	48	440	166	Willamette Inds	NM	506	370	160
Upjohn	241	847	174	162	Willcox & Gibbs	609	658	749	102
US West	498	632	613	114	Williams Cos	575	514	745	138
USAir Group	NM	1076	1090	178	Winn-Dixie Stores	209	131	171	152
USF&G	NM	1065	1086	166	Winnebago Industries	NM	933	1087	124
USG	NM	1112	897	120	Wisconsin Energy	441	458	424	134
Uslico	565	971	780	166	Wisconsin Public Svc	NM	566	508	134
USLife	NM	456	782	166	Witco	NM	660	648	106, 138
UST Inc	133	52	15	156	WLR Foods	NM	495	626	156
USX-Marathon	NM	**	890	138	Woolworth	NM	385	683	172
USX-US Steel	NM	**	403	170	Worthington Inds	NM	325	323	170
UtiliCorp United	400	358	515	138	WPL Holdings	457	580	450	134
Valero Energy	3	70	594	138	WPP Group	**	1114	988	142
Valhi	NM	1043	205	156	Wm Wrigley Jr	129	128	54	156
Valley National	NM	322	1011	146	Wyle Laboratories	144	547	714	114
Valmont Industries	NM	99	667	102	Wyman-Gordon	NM	1083	1093	96
Valspar	220	179	145	106	Xerox	506	666	834	98, 166
Value City Dept	**	**	**	172	XOMA	**	**	**	162
Varian Associates	138	522	791	114	Yellow Freight Sys	543	827	736	176
Varity	NM	954	1026	124	York Intl	**	**	**	102
Venture Stores *	NM	**	167	172	Zenith Electronics	NM	1077	1089	124
VF	NM	278	353	130	Zenith National Ins	402	733	602	166
Viacom	NM	73	1067	142	Zurn Industries	NM	380	690	98
Vicorp Restaurants	NM	110	847	152					

Growth: 5-year annual earnings-per-share growth. Stock market: 5-year price change. Profitability: 5-year return on equity. NM: Not meaningful. **Not ranked.

The Japanese have walked away with the liquid crystal display market. Or have they? Tiny Kopin Corp. is taking them on.

Crystal clear

By David C. Churbuck

PROMINENT ON the list of technologies invented here but dominated by Japanese manufacturers is the active matrix liquid crystal display, the device that makes possible color screens for laptops and that may someday make possible large, lightweight, high-resolution televisions. This lucrative technology is worth \$1 billion a year now and potentially many times that if it can be applied to large TVs.

One tiny Taunton, Mass. company, Kopin Corp., is not content to cede the market to the Japanese. It has come up with a screen much faster and finer-detailed than screens coming out of any Japanese laboratory.

Kopin's trick is to replace the large plate of amorphous silicon of the Japanese systems with a small wafer of single-crystal silicon. Amorphous sili-

con is the kind with atoms tossed into a jumble; single-crystal silicon has all the atoms neatly aligned. What's the difference? Single-crystal silicon is available only in small sizes but yields a screen of far higher resolution. Shine a bright light through this tiny electronic screen, which the company calls Smart Slide, and you get a color image much like that coming out of a slide projector. The image can be displayed on a wall or, with reflectors and magnifiers, through a box that looks like a television set.

Is Kopin just another display technology outfit that dangles great promises but delivers little in the way of commercially useful product? In this category, for example, fall Alpine Group (*FORBES*, Dec. 9, 1991) and CopyTele, the favorite target of

short-sellers.

But Kopin has made real progress. True, the eight-year-old outfit has yet to turn a profit, and its meager revenues (\$2 million in the Sept. 30 quarter) are mostly from government contracts and sales of parts for electronic circuits. But take a look at the prototypes that Kopin is showing around. One is a desktop projection monitor about 10 inches thick, which loses none of its corner and edge definition while running a video clip of a jet fighter. David Mentley, director of display industry research at Stanford Resources, has looked closely at Kopin's technology and was impressed, despite initial skepticism.

Also impressed are Boeing, Rockwell, Venrock Associates, the Defense Advanced Research Projects Agency and the U.S. Department of Commerce. All have bought stock or come through with research grants.

The man behind Kopin is John Fan, a 49-year-old Shanghai-born scientist who founded the firm after a research career at MIT. Fan and Kopin have 95 patents related to wafer and display technology and another 50 or so applied for. Fan keeps his manufacturing process shrouded in mystery but is willing to describe this much of it. Start with an off-the-shelf slice of



John Fan, founder and chief executive of Kopin Corp., with Smart Slide
"We could go as high as 10,000 lines per inch."

Kopin active matrix LCD

Glass

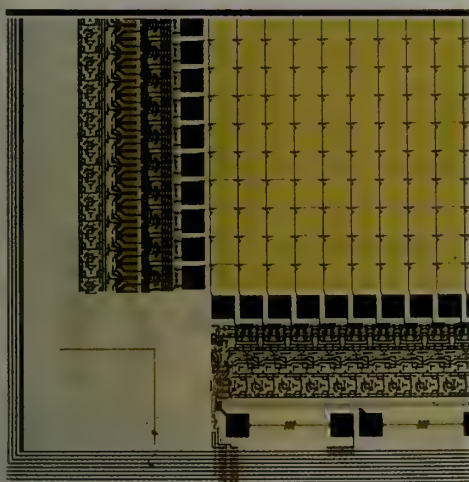
Color filter

Liquid crystal

Driver logic

Single-crystal silicon with transistors

Glass



In Kopin Corp.'s "active matrix" liquid crystal display, transistors within each pixel, or picture element, trigger liquid crystal that acts as a shutter to let light past an appropriately colored patch of the color filter. Kopin uses a single-crystal variety of silicon with better electrical properties than the amorphous silicon of competing products. (A passive LCD, such as those found in older laptops, can't switch on a pixel and leave it on; it must constantly refresh every pixel.) At left is a segment of Kopin's 192-by-192 display for a military helmet.

standard-grade silicon, about 6 inches across. This is large enough to make ten Smart Slides, each about the size of a 35mm color slide. Lather an electrically insulating layer of silicon oxide onto the silicon base. Atop the oxide, deposit a layer of high-grade, single-crystal silicon, only 0.4 microns (16-millionths of an inch) thick. Onto this silicon layer etch transistors

and other circuit elements, using the standard fabrication techniques of a chip line. Now, lift off the silicon base (how? Fan won't say) and bond the top two layers to glass or plastic.

On top of the sandwich thus produced, mount another off-the-shelf component that contains the liquid crystals and a three-color filter checkerboarded with tiny red, green and

blue rectangles. The transistors in the middle of the sandwich activate the liquid crystals, which in turn act as shutters. The shutters let light pass through the red, green or blue portion of each pixel, or picture element.

What's so great about single-crystal silicon? Electrons can move faster through single-crystal silicon—500 times faster than in amorphous silicon, Fan says. The greater electron mobility makes for circuits that can perform three to five times as fast as the circuits in amorphous silicon. The faster circuits make moving images crisper. The higher electron mobility makes possible smaller transistors used to control each pixel. Smaller transistors mean finer resolution—initially, five times the 100-lines-per-inch resolution of competing screens.

Won't a 500-lines-per-inch Smart Slide lose its detail as the image is blown up to a full-size display? Yes, says Fan, but single-crystal silicon's capabilities don't stop there. "We could go as high as 10,000 lines per inch," he boasts.

Kopin's first commercial product, which is supposed to be ready next year, is a wall projector that can display computer images. Kopin also has a \$3 million Commerce Department contract to develop high-definition laptop displays with the Microelectronics & Computer Center in Austin, Tex.

This kind of research and development gobbles huge amounts of cash. Kopin has run through \$40 million in venture capital and research grant cash since it was founded. The company took in another \$14 million from a public stock offering in April 1992, at a price (\$10 a share) that values the whole company at \$65 million.

Fan concedes that his research and development is expensive but compares it with genetic engineering: "Amgen, Centocor, Genentech all started as pure research houses looking for ways to splice genes. Once they figured out the way to do it, drugs emerged. We've done the same thing with materials. Now that we've spliced them, we're going after the biggest market." That so many smart people have put up so much money for Kopin suggests that Fan is on to something big.

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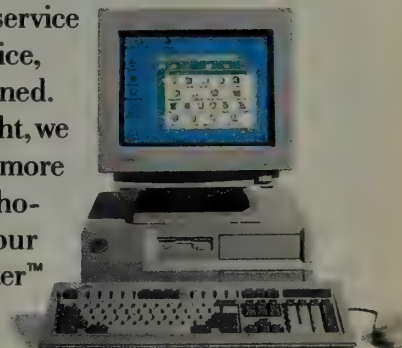
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Model 325T



The new data on cellular

COMMENTARY BY RICHARD A. SHAFFER



Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter*.

INVESTORS in cellular telephone stocks have been rather gloomy for the past several years. Competition in cellular is increasing, and so is the possibility of greater regulation. Although subscribers are becoming more numerous, they are also less loquacious. The average monthly bill dropped from \$81 in 1991 to \$73 in 1992. If not for two recent merger deals—Sprint and Centel plan to merge and AT&T plans to spend almost \$4 billion to buy a third of McCaw Cellular Communications—there would be little to cheer up this technologically vibrant sector of the telecommunications industry.

In gloom frequently lies opportunity. In this case the opportunity is called wireless data. For now, the market for transmitting data as opposed to voice via cellular is small and nebulous. The potential, however, is huge. Estimates of wireless service and equipment revenues for the year 2000 range from \$3 billion to \$13 billion or more.

No contender has a better chance at that market than the cellular phone industry. Established cellular operators, which include subsidiaries of all the Bell operating companies, are endowed with vast financial resources; they have built an infrastructure representing an estimated investment of \$15 billion, including

the money spent acquiring licenses; and they have the distinct regulatory advantage of being able to provide customers with both voice and data transmissions.

What about new competitors in the cellular data market? The most important are the national radio data networks, Ardis and RAM Mobile Data, which have been operating commercially since 1990 and 1991, respectively. The cellular industry is hard at work, however, trying to overcome that head start. My guess is that it will succeed, if only because at least one of the companies behind the effort has a history of doing what many believed was impossible. That company is McCaw.

McCaw is the principal force behind a technology known as "cellular digital packet data," which is being promoted as a standard method for transmitting data over cellular phone networks. Systems built around the McCaw-backed standard, as well as those based on the alternative packet-switching technology developed by Cellular Data Inc., a private company, soon will be able to send data reliably over the cellular industry's nationwide web of nearly 8,000 transmitters. With that capability, they will be reaching 95% of the U.S. population.

Compared with Ardis and RAM, the cellular approaches will provide significant advantages in the size, weight and power demands of subscriber equipment. The more cells in a network, the lower the power needed to transmit signals by mobile devices; the lower the power requirement, the lighter the user equipment can be. The cellular infrastructure has six times the cell density of Ardis, the next-largest network.

Success in the mobile data market will require an unprecedented degree of cooperation and coordination, not only among the carriers themselves but also between them and a multitude of hardware manufactur-

ers, technology providers, software developers and system integrators. Such cooperation won't be easy: The McCaw camp, although it appears to be yielding a set of uniform standards on schedule, has been described even by consortium members as nine warring nations trying to build a common weapon.

My scenario for a wireless data boom depends on several assumptions having to do with the timely development of products and services: The cellular carriers get together to build a coordinated network of transmitting towers; engineers turn out new, miniature radio modems and hand-held personal communicators; and, most important, compelling applications surface.

What might some of those applications be? Delivery services track parcels as they move off delivery trucks, feeding data back to a mainframe on the other side of the country. Rack jobbers feed orders back to a warehouse as they restock a retailer's shelves. A consultant on the way to the airport sends E-mail from the back of a taxicab. A copier repairer on a job site downloads a parts diagram from a faraway database.

Not until 1996 or 1997 do I look for a wireless data network that is cheap enough and easy enough to use to be as widely accepted as cordless telephones are today. Survivors will thus need plenty of capital, and McCaw appeals to me not only for its wireless vision but also because of its ability to raise money, and lots of it.

Among the other cellular operators that I think would benefit from the wireless data trend are Cellular Inc., Century Telephone Enterprises, Centennial Cellular and Centel Cellular.

Other companies worth watching in the wireless data area: Qualcomm and two private firms, ComStream and Pacific Communications Sciences. Qualcomm, which sells a satellite tracking and message system to trucking companies, has developed one of two rival digital techniques for improving the capacity and quality of cellular telephone calls. Pacific Communications developed the other technique and is also working closely with the Cellular Digital Packet Data group. ComStream provides equipment for wireless delivery of news. ■



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Biotechs: keep the faith

COMMENTARY BY MICHAEL GIANTURCO



Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm that specializes in science and technology stocks.

AS I LOOK BACK on my 13 columns that appeared in the past 12 months, the bottom line is positive even though I looked pretty bad on a few occasions. If you had bought a fixed dollar amount of each recommendation (some stocks were suggested twice), you would show a 35% gain for the 12 months from Dec. 9, 1991 through Dec. 8, 1992. The S&P, by contrast, is up 19%, dividends included.

The biggest winner was SynOptics Communications, a stock recommended on Dec. 9, 1991 at a price of 16. It has better than quadrupled, to 72¾. The worst pick was Spectran, also in computer communications, a group that was the year's best in the technology sector. The stock was 20 then; it ended up at 10¾.

I recommended Spectran on Mar. 30, arguing that because of a patent umbrella competition was restricted. But restricted competition doesn't help much when sales growth slows.

Should you take your loss in Spectran if you own it? Michael Shonstrom of C.L. King in Albany this fall cut his estimate for Spectran's 1992 earnings from 85 cents a share to 55 cents. Why? His cut reflected an expected change in accounting methods at Spectran, but, he adds, supply in multimode fiber-optic cable has caught up with demand. Shonstrom nonetheless rates the stock a strong buy

below 10. Perhaps it is, but I think we can recover the loss faster in some other stock. Sell it and take the loss.

Where else did I go wrong? Of the seven positions showing losses, five are biotechs. (Interferon Sciences broke even without commission.) I recommended buying or adding to positions in biotech stocks in February, commenting: "This bubble, we are told, must pop . . . but I cannot agree that the time is nigh." Well, wrong. The time was indeed nigh, but at least I got in on the way down and on the way back up rather than at the top.

Biotech prices this year traced a letter "N" turned slightly clockwise. After a long bitter descent, the biotech and medical device positions in this table are up 3.4%. Strong gains from the July and August purchases of two additional biotechs, Vestar and Gilead Sciences, offset losses for stocks bought at high prices in February. In private accounts I manage I accumulated Biogen, after it sold down, at prices near 29. It was 45½ on Dec. 8. The other biotech majors—Amgen, Chiron, Genzyme and Immunex—are also stocks to accumulate on weakness. My advice for all four: Keep the faith and average down.

Lowrance Electronics is a low-priced stock I would keep on fundamentals. A leisure-oriented company that sells electronics to fishermen, it should benefit from recession's end.

It is a common approach in reevaluating a portfolio to sell the extremes and buy the mean; harvest profits at the top of the list, cut losses at the bottom and hold the rest. You might, for instance, sell half of your positions in winners SynOptics and Cisco, and all of your Spectran. Redeploy the money near the middle of the list, particularly among the semiconductor stocks: Exar, Xilinx and Lattice.

In measuring my performance in this column, I tried to be tough on myself. For starting prices I used the numbers quoted in the column;

where no price was mentioned, I used the closing bid on the folio date of the issue. Not counted in the average: the 53 companies I mentioned but did not recommend for purchase.

In calculating the performance of this column I added 1% to starting prices as an estimated one-way commission cost. I recommended four stocks twice—Chiron, Genzyme, Cisco Systems and Amgen—and so entered them twice in the table. Cisco gained; the other three lost.

I am pleased this exercise in self-evaluation turned out as well as it did. Makes me a bit nervous, though. There is certainly no guarantee that I will do as well in 1993.

Technology track

Pick	Date ¹	Gain/loss ²
SynOptics	12/9/91	350.2%
Cisco	12/9/91	172.3
Cisco	1/6/92	102.1
Cirrus	5/25/92	95.3
Wellfleet	1/6/92	89.7
Vestar	7/20/92	73.3
Xilinx	11/9/92	34.7
Gilead	8/17/92	34.1
LDDS	5/22/92	28.0
Delrina	3/2/92	25.9
Exar	03/2/92	22.6
Hogan	9/14/92	21.6
Lattice	11/9/92	13.2
Chipcom	3/30/92	7.1
Biogen	2/3/92	6.4
Medtronic	10/12/92	5.0
Digicon	4/27/92	4.7
Genzyme	1/6/92	2.3
Amgen	1/6/92	-0.2
Interferon Sci	7/20/92	-1.0
Amgen	2/3/92	-2.3
Chiron	1/6/92	-10.1
Chiron	2/3/92	-13.2
Lowrance	4/27/92	-16.6
Immunex	2/3/92	-26.8
Genzyme	2/3/92	-26.9
Spectran	3/30/92	-46.8
Average		35.0

¹FORBES issue. ²After commission.

Science and technology stock recommendations for the past 12 months gained 35%. Should some be sold now?

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After a decade of 30% annual increases, baseball cards are collapsing.

Honus Wagner strikes out

By Christie Brown

"IT WAS ALL a house of cards, totally fabricated," says Lew Lipset, a veteran New York baseball card dealer. "There was no economic justification for anything." For years, skeptics have been saying that baseball cards were a sucker bet for investors. The skeptics were right.

Let's look at some recent examples of what has happened to prices for newer cards. In the past 18 months the 1986 Jose Canseco card by Donruss has dropped from \$130 to \$60; the 1980 Rickey Henderson card by Topps has fallen from \$200 to \$125; and the 1984 Don Mattingly by Donruss dropped from \$80 to \$45.

Complete sets of new cards are in the tank, too. Upper Deck's 1989 set (800 cards) originally sold for \$45. It rose to \$250 in 1991 and is down to \$140 today. The 1992 Fleer set called Rookie Sensations (20 cards) has already fallen in price—from \$375 to under \$200.

Prices for many of the pre-1980 cards, which are generally more expensive and far fewer in number, are also weakening. One of the largest mail-order dealers, Kit Young of San Diego, has recently marked down some 1940s and 1950s cards by 20%.

Vintage baseball card broker Alan Rosen, alias Mr. Mint, insists that prices have firmed recently, but he admits that his business is down 15% for the last three months. It's worth noting that in 12 years of dealing, Rosen has rarely bought a card for his own inventory. "If and when the music stops, I want to be caught sitting down," says Rosen.

The music seems to have stopped, and no mystery why. Supply simply overwhelmed demand, especially at



Barry Halper owns the world's largest collection of cards and memorabilia
Estimates his cards have dropped 15% to 20% this year.

the lower end of the market (FORBES, Dec. 21, 1992).

For over a decade, baseball cards had been on a dizzying climb. The bubble started to form at the first national baseball card convention, in Los Angeles in 1980, which drew collectors out of the woodwork. Prices for many old cards of greats like Willie Mays, Ty Cobb and Hank Aaron, which had been selling for under \$50 each, tripled in just two years.

After the 1987 stock market crash, baseball cards began to look awfully solid to a lot of hammered speculators. Hype in the popular press helped. In 1988, for example, *Money* magazine touted sample portfolios of cards that had shown average annual appreciation of more than 40% in the 80's. Such hype helped suck people in at the top of the market.

What's surprising is that the drop didn't happen sooner. Most other collectibles took a bath starting with the recession in 1990. One reason cards didn't sag: Price guides kept alive the fiction that values were still rising.

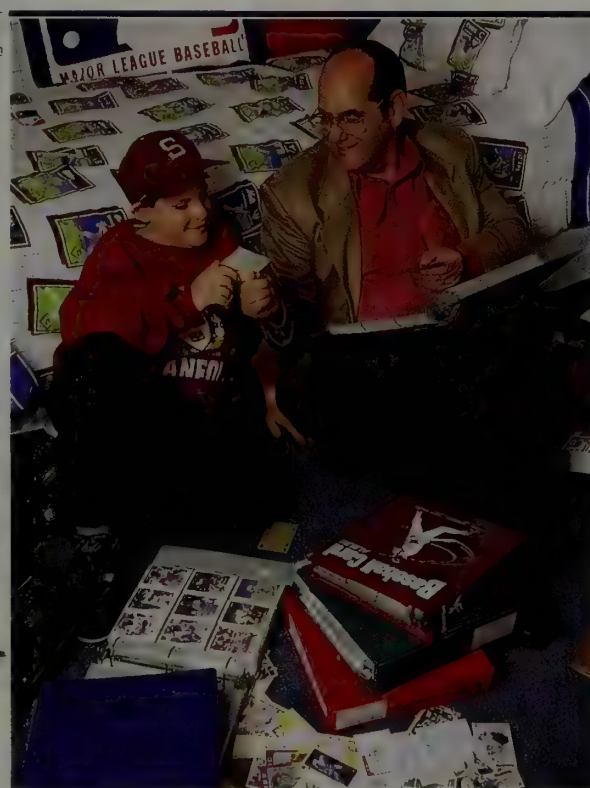
There are 15 monthly price guides, the largest of which is *Beckett Baseball Card Monthly* (paid circulation of over 900,000). How reliable are they? Not very. "The price guides are a farce," scoffs New York dealer Lipset. "They are in competition with each other, and the perception is the one that shows the highest prices is going to sell the most." For example, Houston collector and investment banker Jerry Griggs has found many of his cards for one-half the guide price.

Serious collectors use the guides only as rough indicators. Dr. Herbert Kadison, a radiologist in Kansas, and his 11-year-old son, Cameron, have bought about 50,000

Larry Fleming



Larry Fleming



LEFT: Herbert Kadison and son Cameron
ABOVE: Clemente, Mantle and Maris

From their collection.

market. The collector was Barry Halper, a limited partner in the New York Yankees and owner of the largest private collection of baseball cards and memorabilia in the world.

This Honus Wagner was not in the best condition, but it is thought to be unique. It is part of a strip of cards featuring other great players of the time—Chicago Cubs pitcher Mordecai Brown, Boston Braves catcher Frank Bowerman, Cleveland Indians pitcher Cy Young and Cubs catcher Johnny Kling.

Halper let dealer Rosen, Mr. Mint, shop the strip at shows around the country. Asking price: \$2 million. The best offer Rosen could get was \$200,000. Halper still has the strip.

In October 1992, Christie's offered for auction a Wagner card listed in good to very good condition. It was expected to fetch \$125,000 but was bought in at \$70,000.

Add to falling prices the growing problem of fakes, counterfeits and altered cards, and it's clear that investing in baseball cards and memorabilia has seen its best days.

Radiologist Kadison, however, still loves the stuff. His favorites are older

cards in the last three years. Most were bought for about 20% less than quoted in *Beckett's*—and one—a mint condition 1952 Topps Mickey Mantle rookie card—Kadison got for \$12,500 in 1990 although the list price was \$25,000.

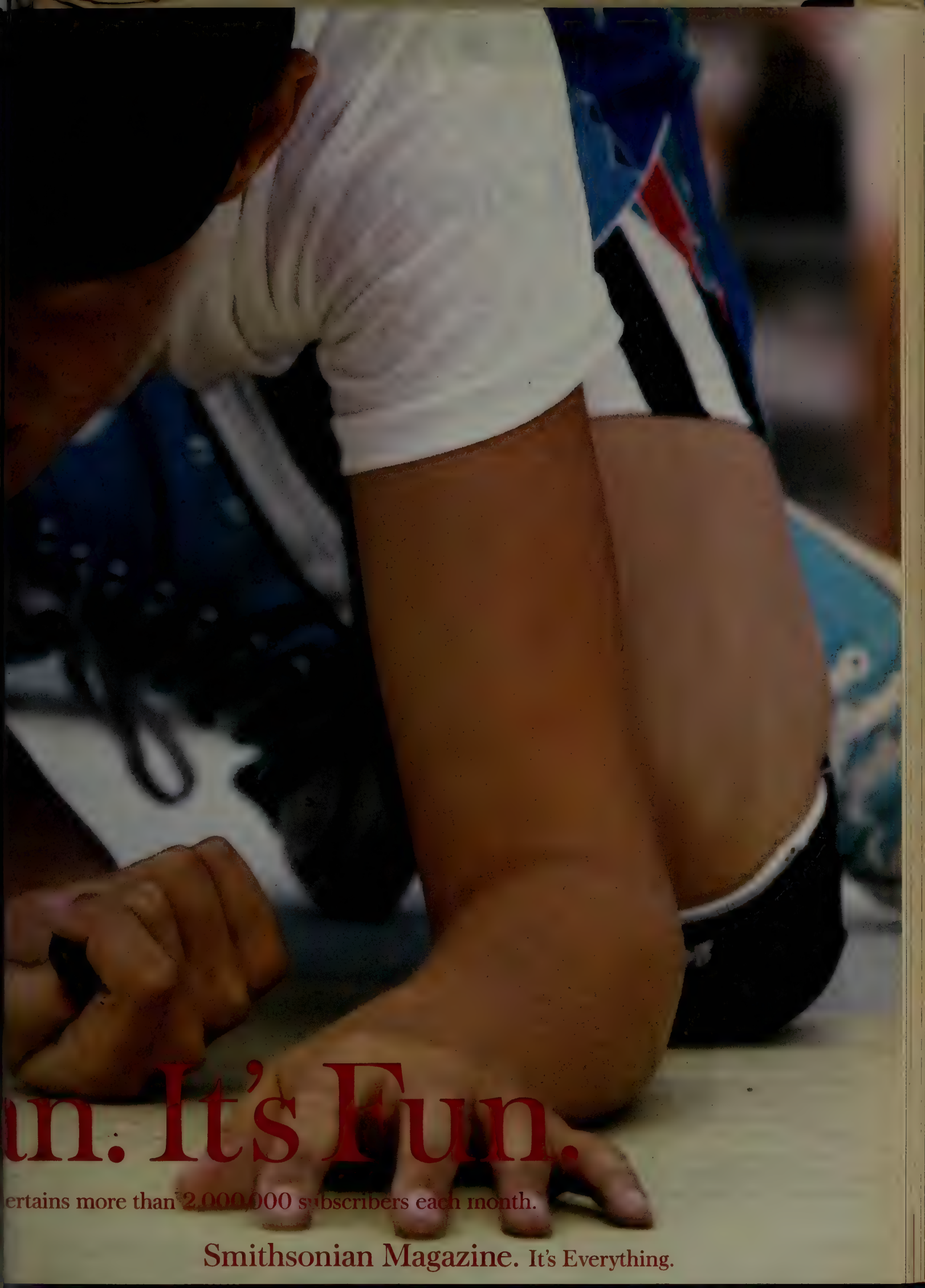
The most highly prized of all baseball cards is that of Pittsburgh Pirates great Honus Wagner, printed in 1910. One of the handful of surviving cards brought a record \$451,000 in 1991 at Sotheby's.

But that was then. Following that auction, another collector decided to see what one of his two Honus Wagner cards would fetch on the open



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Halper's 1910 Honus Wagner strip

Asking: \$2 million; offered: \$200,000.

cards, dating back to 1952, while son Cameron specializes in newer cards—including 450 different versions of Baltimore shortstop Cal Ripken.

Barry Halper, now 53, who started collecting at age 8, is also staying in the game. Spread out over eight rooms in his New Jersey home are more than 3,000 autographed baseballs, 964 uniforms, every All-Star game program, hundreds of gloves, bats, caps, press pins, Babe Ruth's 1932 contract and over 1 million baseball cards. His cards include every complete card set ever issued, and even the very first card—the first professional baseball team, the 1869 Cincinnati Red Stockings.

Halper started collecting in 1948, when he bought a penny pack of cards every day in Newark, N.J. He augmented his collection by pitching cards with his classmates. "Whoever got closest to the wall won all the cards," he recalls.

The most Halper has ever spent on memorabilia was \$17,000 in 1987 for Casey Stengel's Hall of Fame ring. And for a card, his highest price was \$15,000 in 1970 for the battered 1910 strip of five players that includes Honus Wagner.

"I estimate my card collection is down about 15% to 20% since last year. I think the market will eventually come back up," Halper says, "but if it doesn't, I didn't collect to sell the cards, I collected to enjoy them." In 1994 he hopes to tour his collection around the country for two years.

The moral is very clear: Collect for enjoyment, not for investment or speculation.

Thinking of getting a fax machine for your home? Here's a smarter way.

Computerfax

By David C. Churbuck

GOOD-QUALITY fax machines are now selling for as little as \$300. But if you're thinking of buying a fax machine for your home, why not consider a personal computer fax? A PC fax can be a lot cheaper and more efficient than a stand-alone, hard-copy machine—especially if you write your faxes on a computer to begin with.

The notion of embedding a fax machine into a personal computer has been around for years. An early version, introduced in 1985 to much fanfare, proved a disappointment, however. It was before its time, according to Gerald Brodsky, president of the American Facsimile Association in Philadelphia.

But the kinks have been ironed out of the the new crop of combination fax/modems. These computer additions won't break anyone's budget; prices range from about \$130 for a

bare-bones system to about \$600 for the faster, more sophisticated devices (*see table*). (Note: These are suggested retail prices; street prices are often much lower.) Fax/modems are available for Apple and other types of computers, as well as for IBM and its compatibles.

The Cadillac of fax/modems is the Intel SatisFAXtion Modem/400 (price, \$499). *FORBES* tested one for a month, replacing a hard copy fax machine that had served faithfully for four years. Our conclusion: It was great. We'd never go back to paper.

The SatisFAXtion and other systems like it combine the functions of a high-speed data modem with those of a fax machine. They come in two versions: an external box the size of a paperback or an internal expansion board that fits inside a PC. The internal board is generally cheaper than the

A fax/modem shopper

Model	Price	Software	Phone
Sportster 14,400 Fax U.S. Robotics	\$549	Blast Fax PC1.02	800-342-5877
SatisFAXtion Modem/400 Intel	499	SatisFAXtion	800-538-3373
Zoom VFX Zoom Telephonics	449	MTEZ with ExpressFax	617-423-1072
Pocket FAX/Modem Megahertz	249	MTEZ with ExpressFax	801-272-6000
Eagle 9600 Prodigy Services	200	WinFax and DosFax	800-Prodigy
96241 Treasure Chest Peripherals	130	QuickLink II	800-677-9781

A sampler of fax modems for personal computers.
Listed prices are suggested retail.

external box. (Technical note: To get maximum use out of a PC fax, you should have a fairly powerful desktop computer with at least 4 megabytes of memory and 10 megabytes of open hard disk space. A faxed document is essentially a picture of a paper document—white space and all—and pictures require much more storage space than an ordinary text or spreadsheet file.)

External models like the Eagle 9600 (available from Prodigy, \$200) simply plug into your computer and phone jack; internal boards are a bit trickier. While the thought of tinkering with the hardware under the hood of your PC might be daunting, installation of an internal PC fax/modem is less complicated than programming a

will do the rest.

You'll know when you have incoming fax mail when you hear a beep, or there is a flashing icon on the screen. You can view a fax on your screen, or tell your computer to print it out on your laser printer. (Another technical note: Since the fax is actually a picture of a document, you'll need a laser printer, ideally with 2 megabytes of memory, to get a high-quality hard copy of sketches, blueprints, maps, charts and the like. But faxes containing spreadsheets or just text can be adequately printed out on ink-jet or dot-matrix printers.)

There are several off-the-shelf software programs that will control all operations of the fax modem. For example, some programs can even

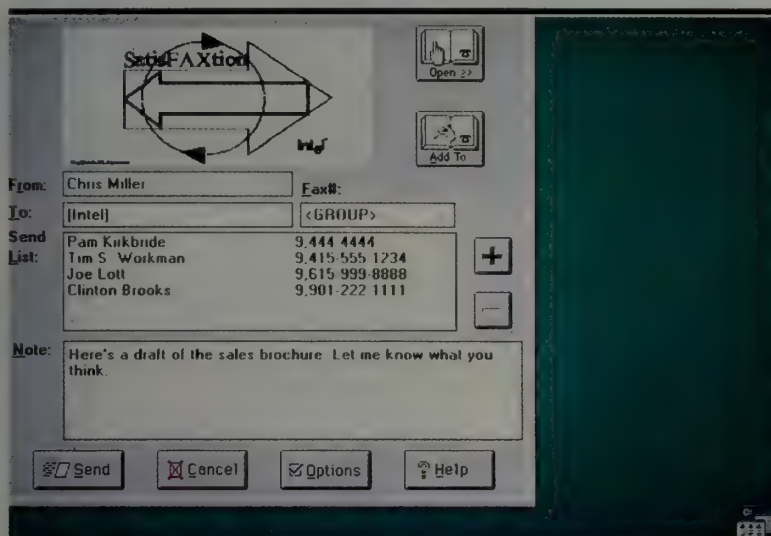
Another advantage is the built-in data modem. The more expensive models come equipped with very powerful modems that can transmit and receive data up to 24 times faster than the garden-variety modem. For example, to send a full page of single-space electronic mail would take over 30 seconds with an old-fashioned modem. But the high-speed modems that come with the new fax kits can handle the same transmission in 3 seconds or less.

And remember this: If you need to send your fax or faxes to a number of places, you can do so with a few keystrokes or mouse clicks, as long as you have already recorded the recipients' fax numbers on your PC. You don't have to sit there waiting for pages to be swallowed by the standard fax machine and then have to resend them over and over until you achieve a successful transmission. With the new fax/modems, the machine does the tedious work.

Any drawbacks to the new generation of computerized faxes? The biggest is that you cannot transmit anything that is not created within a computer. Want to send that newspaper clipping to a colleague in your Milwaukee office, or your child's latest drawing to grandma in Seattle? You're out of luck unless you get an optical scanner to digitize the image and feed it into the computer's memory. Such scanners cost anywhere from \$150 to well over \$500.

In offices, one beauty of a traditional stand-alone hard-copy fax machine is that it can be shared (and cursed) by several people. But Intel and others now offer a networked version of the personal computer fax. It uses one phone line and distributes received faxes over a local area network (LAN). So, for example, the boss could send a fax from afar to anyone, or everyone, whose computer is linked over the local network.

For all these reasons, more and more consumers will likely start sending their faxes by computer. In fact, Janet Fugazzotto, senior market analyst in image communications systems for the Norwell, Mass. market research firm BIS Strategic Decisions, predicts sales of PC fax modems will soon overtake those of traditional fax machines in the office.



Turning your computer screen into a blank fax sheet

Create your message, hit a button and the fax is on its way.

VCR. The hardware consists of an expansion board containing a set of microchips; the internal board is about 4 inches by 9 inches and is 1/2-inch thick. It snaps into one of the empty expansion slots inside most personal computers. Once the expansion board is inserted in the computer, a wire from the board is plugged into a phone jack.

Installing the necessary software takes only a few minutes. Simply follow the step-by-step, on-screen instructions and you're in business. All you need now to send faxes to anyone—whether to a hard-copy fax machine or a PC fax—is the fax number. You can even store a directory of frequently used numbers, so you don't have to punch them in every time you send faxes. Just type in the recipient's name, and the computer

convert a received fax into a file that you can edit on most popular word processing programs. Thus it's possible to read, edit and otherwise tinker with faxes on your computer screen and then send them on without ever having a hard copy. Two of the more popular text conversion programs for Windows are Intel's FAXability Plus OCR (\$249) and Calera Recognition Systems' FAXGrabber (\$89).

You can also transform a "dumb" document into something your computer can store and retrieve from memory, just like any other file. For example, you might want to store an important price list of, say, 19th-century American stamps that has been faxed to you. Once it is converted into an electronic file, the faxed price list can be retrieved, changed and updated directly on the computer screen.

College bound

CANTON, OHIO's Diebold Inc. moves with the times. Founded in 1859 to manufacture bank safes (still around 20% of its \$500 million of revenues), Diebold in the late 1960s began making automated teller machines and today controls better than 40% of the worldwide market for ATMs. But now Robert Mahoney, 55, worries that ATMs, too, are a maturing business. To maintain Diebold's double-digit earnings growth, Mahoney is positioning his company in what he believes will be a major new business: campus security.

Since August, Mahoney has signed up a half-dozen big schools—including Oklahoma State, Florida State and the University of Illinois—for his new magnetic-strip student ID card venture. Called Card One, the system provides access to dormitories, athletic events, libraries and cafeterias. The card can be programmed to restrict access to specific areas—the administration building, for example, or the chemistry labs.

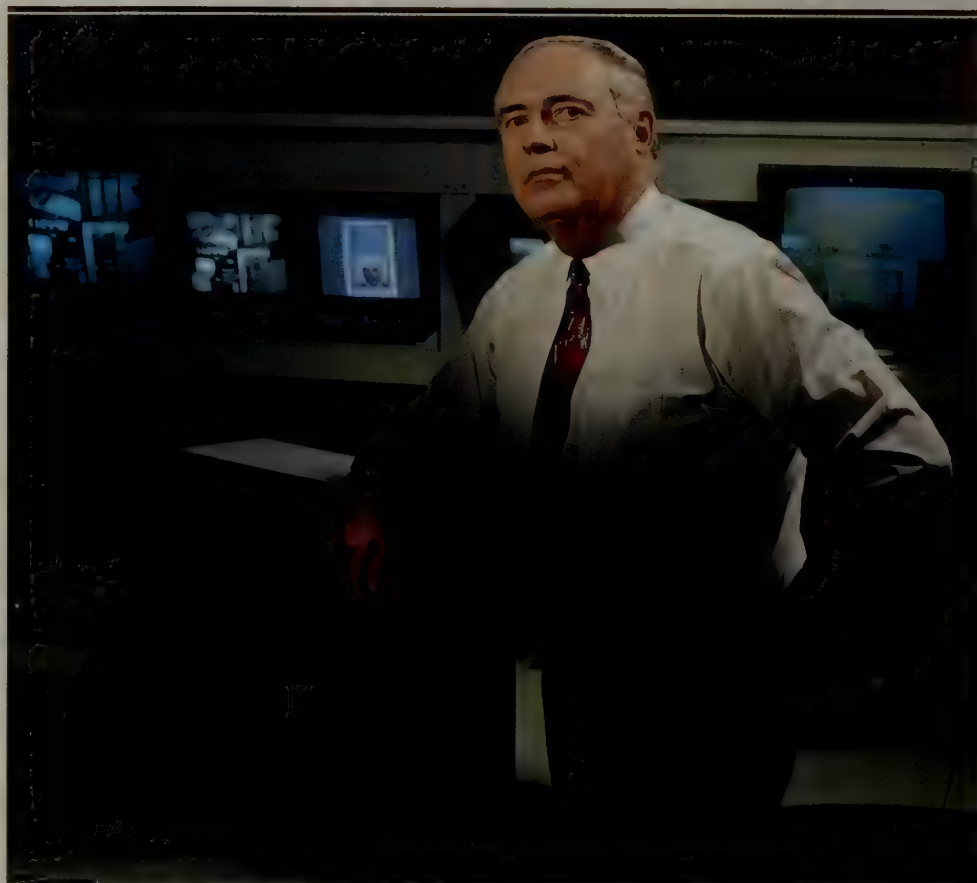
But Card One is more than a smart key. Building on Diebold's strength in money transfers, the card will also let students charge purchases at the bookstore, pay for a load of laundry, buy snacks from a candy machine or get cash from an ATM. Diebold makes its money selling the hardware and software, as well as from long-term service contracts.

Recently trading on the New York Stock Exchange at 59 a share, Diebold sells at 19 times estimated 1992 earnings of \$3 a share. But the stock may be a bargain. Mahoney, who was born in Brooklyn and educated at Villanova University, envisions marketing his Card One systems to airports, hospitals and even penitentiaries. "This," he predicts, "will be bigger than ATMs."

—CHRISTOPHER PALMERI

"A recipe for terror"

DAVID HENSLEY, director of business forecasting at the University of California at Los Angeles, was scoffed at by his peers when he warned in 1989 that California's economy was on the verge of trouble. Then only 30, Hensley cited the lack of affordable housing, traffic congestion, the end of the



Diebold Chairman Robert Mahoney

Will Card One be the key to another era of growth?

defense buildup and an abundance of state environmental regulations to predict that the state economy would slow over the next several years.

The peers are no longer scoffing. Today California is in its third year of recession. His pessimism fully vindicated, Hensley now draws as many as 400 investors, business leaders and government officials to his quarterly California economic forecast conferences on the UCLA campus. The university charges each attendee between \$175 and \$225 per session.

Hensley is still bearish on the state's prospects. "By my reckoning, California has not even come close to hitting bottom," he says, predicting another year of sluggish home sales, more layoffs in the aerospace industry and rising nonperforming loans at the state's banks and savings and loans. Hensley's biggest concern is that California home prices will drop further. Prices on high-end homes have fallen as much as 40%; Hensley estimates the overall decline at 15%. If prices continue to erode, Hensley says consumer spending will continue to



Economist David Hensley

"California has not even come close to hitting bottom."

fall, bank foreclosures will rise and the number of people fleeing the state will rise to exodus proportions.

"People's expectations about the California economy and their employers' commitment to them have already been radically downgraded," he says. "If you add declining home prices to that equation, you've got a recipe for terror among homeowners." —JOHN H. TAYLOR

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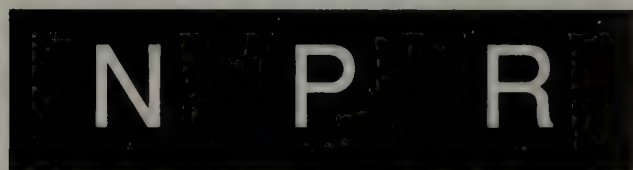
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THE FORBES/BARRA WALL STREET REVIEW

BY ERIC S. HARDY

A third of the way through December, the Barra All-US index shows a 1992 total return (capital appreciation plus dividends) of 8%. Much of this gain came from a year-end rally in two of the year's lackluster market sectors, health care and technology. Six of the ten best-performing stocks for the two-week period ended Dec. 10 are in one of these two sectors.

Market analyst Joseph Battipaglia of Gruntal & Co. expects the U.S. economy to grow slowly next year while inflation remains low. On balance, that's good, he says: "Low inflation means more value and buying power for a dollar's worth of profits or dividend income."

Some of the companies that Battipaglia is now buying make computer chips—Advanced Micro Devices and LSI Logic, for example—or develop specialty computer software. Battipaglia's two favorites in the latter group are Novell and Oracle Systems.

The overall market



Closeup on the market

Index or investment	2-week change	% change from	
		1 year ago	5-year high
Barra All-US index	1.2%	14.4%	-0.6%
S&P/Barra Growth index ¹	0.8	15.3	-0.6
S&P/Barra Value index ²	1.9	18.9	-0.4
Dow Jones industrials	1.4	14.4	-3.0
S&P 500	1.3	14.0	-0.5
NYSE	1.2	13.6	-0.5
Nasdaq	1.6	22.9	-1.2
Amex	-0.1	7.2	-6.3
EAFE ³	1.4	-7.7	-28.9
CRB index ^{4,5}	-0.9	-4.3	-26.0
Gold ⁵	0.0	-9.0	-33.6
Yen ⁵ (per \$U.S.)	0.3	-4.1	-24.3
Oil ⁵	-6.9	-3.3	-54.2

The best and worst performing stocks⁶

Best	Price	2-week change	1992 EPS ⁷	Worst	Price	2-week change	1992 EPS ⁷
First Pacific Networks	10 1/8	65%	NA	SPI Pharmaceuticals	12	-33%	NA
Alph 1 Biomedicals	16	45	NA	Tuboscope Vetco Intl	5 5/8	-27	\$0.24
Colonial Cos	37 3/4	41	\$2.46	Somatogen	17 1/2	-27	-2.45 ⁸
Coachmen Inds	16 3/4	41	0.25	Filene's Basement	17 1/4	-22	0.90
Boston Technology	11 1/8	40	0.13	Tuesday Morning	9 3/4	-20	0.80

The best and worst performing industry factors^{4,9}

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Aluminum	7.7%	-1.8%	Photographic, optical	-5.0%	1.6%
Motor vehicles	7.6	53.9	Oilfield services	-4.6	-11.1
Precious metals	6.5	-12.4	Forest products	-3.9	67.8
Misc mining, metals	4.8	6.8	Leisure, luxury	-2.5	32.9
Real estate	4.1	20.2	Cosmetics	-2.4	16.9

Special focus

Here's a sneak preview of how the ten largest equity funds (stock or balanced stock and bond) are likely to finish 1992. As of the second week in December, the best-performing big fund was Fidelity Puritan, with a total return of 13.5%. Fidelity Magellan, the largest stock fund, lags behind the market's single-digit total return.

The biggest funds

Fund	Assets (\$bil)	Total return
Fidelity Magellan	\$21.2	5.2%
Investment Co of Am	14.2	6.0
Wash Mutual Investors	9.5	8.2
Vanguard Windsor Fund	8.2	13.4
Vanguard Index-500	6.0	6.8
Income Fund of Am	5.8	9.8
Fidelity Puritan Fund	5.6	13.5
AIM Weingarten	5.2	-1.4
Vanguard Wellington	5.2	7.1
Janus Fund	5.0	5.5

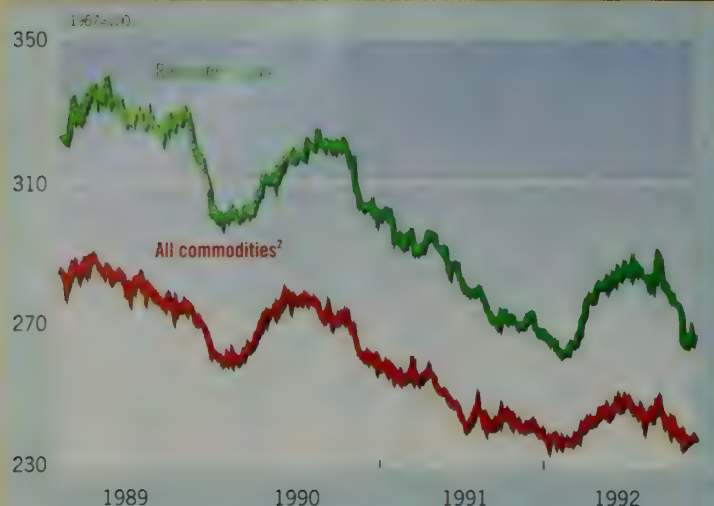
Source: Micropal.

Note: Data for period ending 12/10/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. ¹ Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. ² Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³ A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴ Index of 21 commodity futures. ⁵ Knight-Ridder Financial Information. ⁶ During the last two weeks. ⁷ Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. ⁸ Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. ⁹ 1993 estimate. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

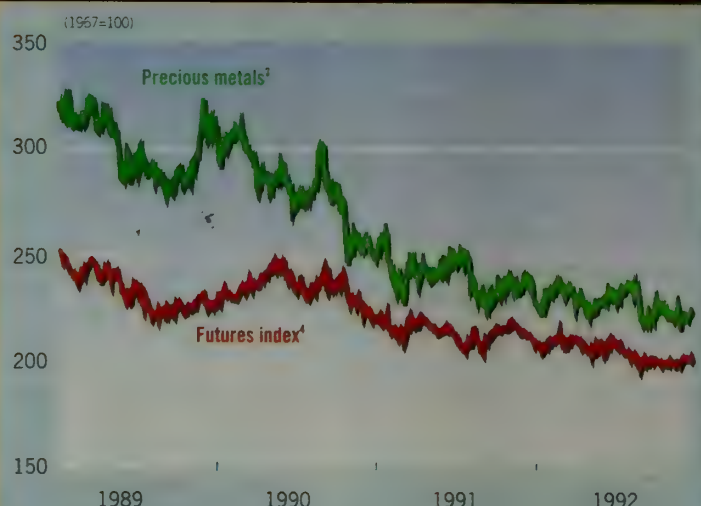
COMMODITIES REVIEW

BY ERIC S. HARDY

CRB spot indexes



CRB futures indexes



The U.S. economy gained strength during the third quarter, and that momentum appears to have carried over into the fourth quarter. Yet commodity prices are soft and are expected to remain so. The Commodity Research Bureau's futures index—a measure of anticipated price changes for 21 basic foods and materials—slipped 1% during the past three months and is down 3% since the start of 1992. The CRB's spot index, which reflects cash prices for 23 items, is down 0.1%.

The U.S. accounts for about 25% of the world's demand for goods and services. But while the U.S. economy is improving, worldwide demand for many commodities remains weak. A report by PaineWebber estimates that U.S. gross domestic product will show a real increase of

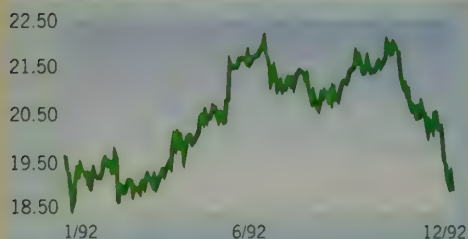
2.6% in 1993. That's slightly above Japan's expected growth and well ahead of what's expected in Germany, France and the U.K.

Even if world demand unexpectedly surges, however, there won't be a need to open new mines or processing plants. CRB analyst James Nevler puts it bluntly: "We have a global glut of just about everything."

In the U.S., most of these surpluses will not translate into lower retail prices. Other factors, such as regulation, are often more influential in determining consumer prices than is cost of basic materials. A recent example: New food labeling rules will take full effect in 1994. Whatever sugar, say, costs, ice cream makers will have an excuse to raise their prices.

Commodity spotlight

Crude oil⁵ (\$ per barrel)



Efforts by producers to restrain oil production are having little impact. The Organization of Petroleum Exporting Countries produced at an estimated rate of 25 million barrels a day in November, more than 5% ahead of 1991's average for November. The rise in output has probably helped push down the value of the February crude oil contract.

Cash and futures prices

Spot indexes

Index ⁶	Value	3-mo change
All commodities	238.16	-3%
Raw industrials	267.29	-6
Metals	246.34	-12
Textiles	204.56	-4
Foodstuffs	201.42	0

Futures indexes

Index ⁶	Value	3-mo change
CRB index	201.81	-1%
Precious metals	224.35	0
Industrials	222.38	-1
Grains	190.50	0
Livestock & meat	185.37	1

Spot commodity prices

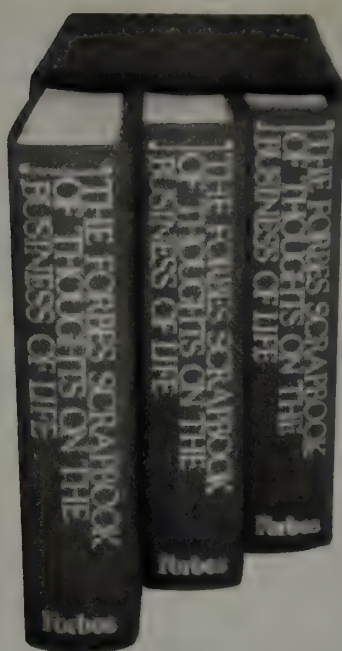
Index	Price	3-mo change
Steel scrap (short ton)	\$89.00	-4%
Copper scrap (pound)	0.83	-13
Print cloth (sq yard)	0.66	-6
Corn (bushel)	2.03	-10
Soybean oil (pound)	0.20	8

Futures prices

Index	Price	3-mo change
Jan platinum (troy oz)	\$370.00	3%
Jan crude oil (barrel)	18.84	-13
March copper (pound)	0.99	-10
March cotton (pound)	0.58	6
March Chi wheat (bushel)	3.59	3

Note: All prices as of 12/8/92. ¹Composed of 13 commodities. ²Composed of the 13 raw industrial commodities plus 10 foodstuffs. ³Gold, platinum and silver. ⁴Composed of 21 commodities. ⁵March 1993 contract. ⁶Base for spot and futures indexes (1967=100). Source: Knight-Ridder Commodity Research Bureau.

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THE Securities & Exchange Commission, in its majestic effort to protect investors from themselves, outlaws the rebating of mutual fund commissions. If you want into, say, the excellent United Income Fund, you must pay a broker the usual load, which goes as high as 8.5%. The SEC did put out a study last year suggesting that mutual fund sales loads be made negotiable, but backed down when Wall Street objected.

What the regulators were too timid to do by fiat, the market may someday do on its own. Look at what Jack White & Co., the San Diego-based discount broker, is up to.

Since 1990, little Jack White (annual commission revenue, \$8 million) has quietly been matching buyers and sellers of load funds for a flat \$200 commission. After several years of dithering, the SEC recently gave White the nod to disseminate bids for load funds to other retail brokers—which could clear the way for an active secondary market.

How does White's market work? Anyone with cash or collateral in a White brokerage account can place a buy order for any load fund. The discount brokerage has no inventory but tries to find someone who wants to sell the same fund. When a match is made, the fund shares change hands at net asset value; White charges the buyer \$200 and gives \$100 of that to the seller. The seller is better off by \$100 than he would have been had he redeemed the shares. The buyer can save a lot more.

Brokers who make a living selling loaded financial products would like Jack White to go away. Grumbles David Harris, head of retail marketing at broker Gruntal & Co., "Why not



Discount broker Jack White
More choices for cheapskates.

sell immediately through a regular broker, instead of waiting around indefinitely just to get a hundred bucks?" His point is that if you redeem the regular way you will know by closing time what your price is; if you deal through White you won't know until he finds you a buyer, which could take months.

But what if a Jack White buy order is already outstanding when the broker gets the redemption order? Then there's no wait for the seller, and redeeming at the fund sponsor simply means forcing the customer to pass up \$100. Arguably, the broker has a fiduciary responsibility to get the best price for his customer.

Will fund sponsors register shares that change hands in this manner? They would prefer not to annoy the

full-price brokers, who do most of the selling for them, but getting a cheap-skate customer through Jack White may nonetheless be better than the alternative, which is to lose the assets in a cash redemption. White supplies each buyer with a prospectus and notifies the fund.

In two years White's firm has completed only about 1,000 trades of load funds. His problem is not on the demand side but on the supply side. He has more than 3,000 orders queued up to buy about \$120 million worth of fund shares, but has so few sellers that he can match only about three orders a week.

White thinks he'll be able to complete trades much faster after he lists bids on some of the computer systems used by brokers, such as Automatic Data Processing's FS Partner and Quotron's Advantage AE. "This is the beginning of a whole new network to accommodate a growing legion of investors," says White. "These are people who want to buy load funds but don't want to pay hefty commissions to get them."

Terry Deru, a fee-only financial planner at Belsen Getty, Inc. in Salt Lake City, Utah, has sold funds through White for eight clients. The average trade topped \$50,000. "If you want to sell a load fund, you've got a choice for the first time," says Deru. "You can go to the fund family and redeem it at net asset value, or you can sell through Jack White and get net asset value plus \$100 for the client. It makes me look like a hero." One White customer recently bought \$100,000 worth of Franklin Adjustable U.S. Government Securities Fund from one of Deru's clients, paying a commission of \$200 instead of the usual \$2,250 load.

For now, fund discounting is but a tiny factor in the marketplace—as small as the business of selling life insurance with negotiated commissions. (California is one of two states where haggling over insurance commissions is legal, and Jack White's son Mark is one of a handful of insurance agents offering discounts.) But fund discounting could turn into a serious business if a big outfit like Schwab gets into the act. Consumers today expect discounts on airline tickets and cars. Why not funds?

Most growth funds gobble hot retailing, biotechnology and software stocks. Wayne Hummer Growth prefers machinery and insurance.

Let's grow old together

By Mary Beth Grover

FOR A LOT of investors, running a growth stock portfolio means trying to catch the next Home Depot and exiting quickly when a company delivers bad earnings. But not for all. Alan Bird and Thomas Rowland do well with a reverse strategy: buying into dull-sounding companies and holding them for a long time, through thick and thin.

Their Wayne Hummer Growth Fund in Chicago owns unglamorous midwestern stocks like Illinois Tool Works, Parker Hannifin and Nalco Chemical. These are bedrock holdings. Hummer Growth has owned each of those companies ever since it got off the ground in 1984. The fund's turnover in 1991 was 13%, against 103% at the average growth fund. Says Bird: "Companies that were good 10, 20, or 30 years ago are still good."

So are Hummer Growth's results. The fund, which is up to \$76 million in assets, has returned 14.7% per year for the five years ended Oct. 31, nudging out the S&P 500 (14.5%) and elbowing well past the average growth fund (13.7%).

"Investing doesn't have to be real complicated," says Bird, 53, who grew up in a small town in Iowa where his grandfather was the local banker. He and Rowland, a 47-year-old native of Illinois, look for businesses they easily understand. So much for Amgen or Microsoft. Adds Rowland: "You won't find us buying the latest, hottest IPO and flipping it for short-term gains."

But once they do find a company they like—with loyal customers, low

debt, high management ownership, steady earnings and dividend growth, and a return on equity of at least 15%—Rowland and Bird virtually adopt it for life. Illinois Tool Works was the first company Bird ever visited back when he was an analyst trainee at Northwestern University's endowment fund in the 1960s. Since Bird plunked it into the fund in 1984, the stock has nearly quadrupled. The maker of manufacturing equipment (1991 revenues, \$2.6 billion) is the fund's third-largest holding.

Here's loyalty: When Illinois Tool Works took a hammering last April over concern about the health of its customers in the automobile industry, Hummer Growth picked up 5,000 more shares. Rowland and Bird don't often sell, but they use new money coming into the fund to invest in new names. Pittsburgh-based Calgon Carbon, which Hummer Growth

bought as low as 15 last October, is the world's largest producer of carbons used in water treatment, with sales of \$308 million. The dividend is small (yield, 0.8%) but rapidly growing. Calgon's return on equity has averaged 24% over the past five years. At a recent 18⁵/₈, the stock goes for 23 times earnings.

Another new friend is RPM, the Medina, Ohio manufacturer of protective coatings for metal and wood. RPM earned \$34.5 million, or \$1.10 a share, on \$552 million in revenues in fiscal 1992, its 45th consecutive year of higher sales and earnings. Recent price: a split adjusted 17³/₈, up 11% from Hummer Growth's purchase last year.

Rowland and Bird, who did stints as equity analysts for insurance companies, still like the insurance industry, where they have parked 8% of their assets. Recently they added Cincinnati Financial Corp., a property and casualty insurer that sells mainly in midwestern towns (*see story, p. 166*). The firm's dividends have been growing at 16% a year.

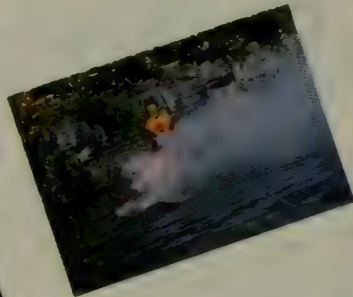
Old Republic International, a Chicago-based property and casualty insurer, is Hummer Growth's eighth-largest holding; earnings have grown 14% annually for the last five years, yet the firm trades at just eight times trailing earnings.

Although the fund is managed by an affiliate of the Wayne Hummer regional brokerage firm, it carries no sales load and no 12b-1 fees. Its 1.23% expense ratio is a hair less than the average growth fund's. ■



Alan Bird and Thomas Rowland of Wayne Hummer Growth
The rewards of loyalty.

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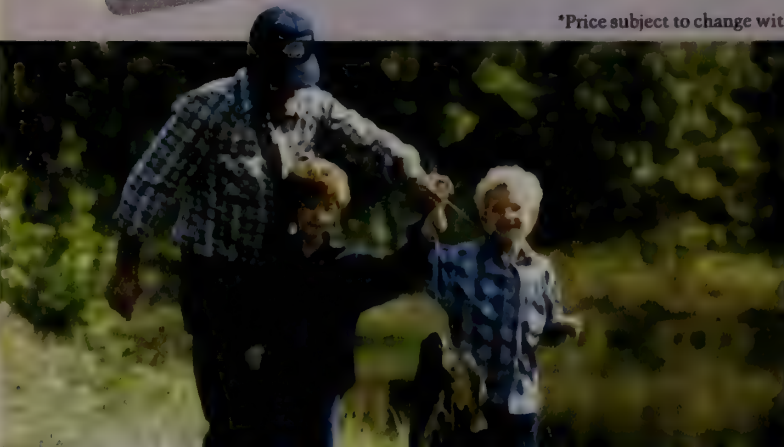
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Everyone makes mistakes, but the really bad ones come from not recognizing the early signs.

Take your medicine

BY DAVID DREMAN



David Dreman is chairman of Dreman Value Management, L.P., Investment Counsel, New York, and author of *The New Contrarian Investment Strategy*.

IF I MUST CHOOSE my worst mistake of recent years it would have to be *Westinghouse*. That stock more than quadrupled after I first recommended it in the spring of 1984. Then I picked the stock again in 1990 at 27, down from 38 that year, and gave back a good part of the profit. When the company began to look out of control, I recommended that readers take their losses at 18 (*FORBES*, Mar. 2, 1992). Since then the stock has dropped another 50%, to 9, before partially recovering to 12.

The lesson here is to forget management assurances that a problem is under control, and get out quickly when there is a scent of major trouble.

I was far from being alone in going wrong last year with *IBM*, which I recommended Jan. 8, 1990 at 94. The major writeoffs and restructurings that we were initially told would be short-lived have continued and continued. And now? The 7.1% yield is appealing, but with no end to the charges indicated may prove difficult to maintain. If you need the tax loss, sell now. If you can hold out for a month or two, wait for a bounce after tax-selling abates.

The lesson here is that no matter how good a company once was, when it flounders with no well-conceived plan to expand its markets and only programs to lower costs, look out.

James River at 33 (*FORBES*, Sept. 14, 1989) was another stock that for years had an excellent record, then came unglued in the economic downturn. It was forced to sell off subsidiaries and restructure a number of times. The stock at 17 is a hold, with a target in the mid-20s as the economy recovers. Again, an impressive record and management team lulled me into not pulling the trigger quickly enough. Would've, could've, should've.

Finally, there is *GM* (32), recommended at 36 (Oct. 22, 1990). Here was a company with enormous potential and major problems. To attack the needed massive North American downsizing required both numerous plant closings and large layoffs. Though I recognized GM's problems, I believed the depressed price more than discounted them. I was wrong.

According to some statisticians, an investor has to be right only about 60% of the time to be well ahead of the market—provided he cuts his losses quickly enough. Once you recognize a mistake, correct it quickly. Don't wait for a rally, don't just sit there, hoping for better news. Early medicine is the best medicine. The quicker the better. Where I haven't taken this advice I have often lost money.

Having learned—I hope—from my mistakes, I think I am entitled to remind readers that I have been spectacularly right on quite a number of occasions. I remember, for example, after the 1987 crash stating the market would come back, when the almost unanimous consensus was that we were hurtling

toward a second Great Depression.

Again, in the financial panic of 1990, when banks and financial service companies were down 50%, 75% or even more, I told *FORBES* readers it was time to buy, not sell, financial stocks. In that period I recommended *C&S Sovran* (17 then, 54 now, up 218%), *First Fidelity* (14 then, 41½ now, up 196%), *Key Corp* (14 then, 38 now, up 168%), *Fannie Mae* (29 then, 74 now, up 155%).

And what do I like now for 1993? First, more of the same in financials. Although the S&P financial index was up strongly again last year, many stocks in the sector still look attractive.

Here are a few I would look at.

Fannie Mae (74) and *Freddie Mac* (45), the nation's first- and second-largest originators of mortgage-backed securities, have shown 10% to 15% gains for years but still have well-below-market P/Es. FNM, at a P/E of 12, yields 2.2%; and FRE, at 13, yields 1.6%. Both should continue to show above-average growth.

Kalamazoo-based *First of America Bank* (35) has more than doubled since recommended in this column in November 1990. The stock still provides excellent value with a P/E of 9, a yield of 3.9%, and the probability of an earnings increase of 30% this year.

NBD Bancorp (30) is a major bank holding company headquartered in Michigan. Earnings should show a better than 10% growth rate in the foreseeable future. NBD has a P/E of 10 and yields 3.5%.

Marion Merrell Dow (26) is a leading pharmaceutical producer. The stock is down from a high near 40 last year to its present price of 26. Earnings should show a 15% rate of gain this year. The stock trades at a P/E of 10, yielding 3.7%. ■

In 119 Forbes columns and more than 450 stock recommendations I'm bound to make lots of mistakes, for the only way to avoid mistakes is to do nothing.

The other Dow Theory

BY KENNETH L. FISHER



Kenneth L. Fisher is a Woodside, Calif.-based money manager. His third book is *100 Minds that Made the Market*.

Lesson? Respect media power and crowd psychology, even when you know they are long-term wrong.

I still expect our economy to do better in 1993 and 1994 than most folks do—in the end reality will prevail over false perceptions.

The good news? My mid-1991 optimistic call for smaller, value-oriented stocks was vindicated in 1992. As I write, the S&P 500 is up 4% year-to-date, but the Value Line index, full of smaller stocks, is up more than 12%.

If that call was right in general, I made a serious misstep in my Mar. 16 column. I failed to see that the small stocks had risen so much in the early months of 1992 that they were due for a reaction. All of March's stocks are off a bunch since then.

Turning to individual stocks, my prize boo-boo was JWP (19 when I recommended it Mar. 16, 4 now). I knew the outfit was heavily in debt, but I thought its excellent prospects outweighed the debt. I was dead wrong. As internal management problems arose that finally toppled JWP's president and culminated in November in large-scale accounting irregularities and writeoffs, JWP's debt was an anchor around its neck.

What is the lesson to learn here? Playing with fire gets you burned. Even if you think you know a situation cold, there are too many ways things that can go wrong for a highly indebted firm not to be a high-risk stock. My mistake here—and most investors have done this at some time or another, and I hope I don't do it again—was to think I knew enough to justify that high debt load. Wrong.

What should you do if you bought the stock on my say-so? It's risky, but I would hang on. It still has too much

debt, but the bad news is out, cash flow is good and JWP should be able to pay down its debt. Of course, I was wrong before. It's your decision.

Less a disaster but still an unhappy experience was M/A Com (4—also recommended on Mar. 16, at 7—down 40%). Here I'm more confident holding the stock, despite its sad results to date. My mistake was in underestimating how difficult change is. M/A Com has been moving from defense markets into commercial ones. And it's done well at that, but at the price of far less short-term profitability than I expected. It sort of falls into the Murphy's sub-law category of: "Everything takes longer and costs more than you expect."

But at 75% of book value, 25% of revenue and 8 times trailing earnings I would hang tough here. It is far from a leveraged company. Nonearning cash flow, mainly depreciation, is huge—enough to pay off all debt in only two years. And the management has a clear mission moving forward.

I suggested avoiding several stocks this year, and did okay there, but *Outback Steakhouse* (28—cited July 6) is up 99% since then. I simply thought it was vastly too pricey and didn't appreciate the priceless momentum of a fad.

Of course, among my 35 1992 stock picks I also had a few winners. In a fairly flat year for the S&P 500, only 8 of my other picks were down, and none as much as 10%. The average of all my 1992 picks is up 11.5%, which is much better than it sounds, because on average these picks are slightly less than six months old. I had 13 picks that were up double-digit amounts, including: *SCI Systems* (16—cited at 6 on Jan. 20—up 165%), *Applied Magnetics* (11—cited at 7 on Feb. 17—up 57%) and *Mueller Industries* (21—recommended at 14 on July 6—up 47%). So, I'm not at all ashamed of my overall results.

But as Herbert Dow would have said, and as my dad did his best to beat into my dense brain, you learn much more from examining your failures than from doing so with your successes. In facing the future, I count each lesson learned from my mistakes as being among my successes, and never expect to avoid all mistakes, or hope to stop learning. Happy New Year. ■

"NEVER PROMOTE A MAN who hasn't made some bad mistakes, because you would be promoting someone who hasn't done much." I quote Herbert Dow, that brilliant business manager who founded Dow Chemical. I'm decades too young ever to have met Dow, but when my dad caught me doing something wrong he would quote Dow to me and then insist on analyzing what I had done wrong in the interest of learning from it.

In that spirit I confess my recent mistakes to you my readers and seek to draw some lessons therefrom.

I have been too optimistic since 1991 on the economy. While recovery started in mid-1991, and my timing on that was very good, I expected more oomph than occurred.

One thing that has held the economy back is the perception that consumers and business owe too much money. I think this perception is wrong, but it exists and I should have remembered we live in a world where perception can overwhelm reality for quite a while. The media have browbeaten a debt-based gloom into us (Jan. 20, 1992) and made it politically incorrect to speak optimistically.

Just about everyone claims to be contrarian, but few truly are.

The genuine article

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (New York Institute of Finance).

OXYMORONIC AS IT sounds, being contrary has become a fad. At the numerous investment seminars I attend around the country, adviser after adviser will claim to be a true contrarian. Many of the investment letters monitored by the *Hulbert Financial Digest* make the same argument. It's a strange situation of the crowd proclaiming itself to be anti-crowd. Who's the genuine article, who the impostor?

You can tell by reading an excellent new book—*Investment Psychology Explained*, by Martin J. Pring (John Wiley & Sons, \$24.95).

"To be a true contrarian," Pring writes, "involves study, creativity, wide experience, and, above all, patience." It requires constant vigilance in reexamining assumptions and biases in the light of new evidence. Since it is the rare investor who is up to such a challenge, Pring isn't particularly worried that true contrarianism will become so widespread that it itself becomes the consensus view. What has become the contrarian fad of today is just the title, not the habit of independent thought.

Pring, the author of this thoughtful work, also wrote the definitive *Tech-*

nical Analysis Explained, and he publishes an investment letter, the *Pring Market Review*. (HFD doesn't monitor Pring's letter because it doesn't have a model portfolio.) In his book he scornfully contrasts the anti-intellectual group-think that currently passes for contrarianism with the independent analysis and thinking of Humphrey Neill—the self-proclaimed "Vermont Ruminator," who edited one of this country's earliest contrarian investment letters, *Neill Letters of Contrary Opinion*.

Reading Pring's book—and rehearsing Neill's ideas—you quickly realize how silly most current contrarian arguments really are. For example, very few of the many advisers who claim to be contrarians have remotely similar market forecasts. Instead of being contrary to some prevailing opinion, they are mainly different only from one another. (If A is bullish and B is bearish, that doesn't make B a contrarian.) I might be the only one to think that the Dow industrials will drop to 100 by Inauguration Day, but that doesn't make me a contrarian; it only makes me extreme.

Pring also reminds us that the majority isn't always wrong. True contrarianism is based on the insight that the majority is wrong at market turning points, but it recognizes that most of the rest of the time the consensus view will be right. During the strong stock bull market of the 1980s, for example, most of the investment letters I follow got in gear with the trend and were bullish. Those knee-jerk so-called contrarians who mechanically responded to this bullish consensus by getting out of stocks missed the bulk of the bull market.

To profit from contrarianism, therefore, we must learn how to differentiate between periods in which a

strong consensus is right and the turning points at which it is wrong. This means resisting the temptation to initiate new positions in every kind of market, since most of the time the market is in between turning points.

Pring practices what he preaches: When I called him in early December, he said frankly he had no strong opinion about any of the markets.

But I do have records over the long term for several letters that claim to be contrarian. One stands out—*Investors Intelligence*, founded by the late Abe Cohen and currently edited by Michael Burke. An investor who switched back and forth between an index fund and cash over the last six years according to this letter's mutual fund signals made 136%, in contrast to 93% for a simple strategy of buying and holding.

Does this true contrarian letter have a strong view as 1993 dawns? It does, at least for the short to intermediate term. It advises being fully invested—the first time it has been this bullish in nearly two years. According to its reading of investment advisory sentiment, bearishness reached extreme levels in the weeks prior to the presidential election. At that time among the 130 advisers it monitors, it found fewer bulls than at any time since the beginning of 1991 and more bears than at any time since December 1991—both of which marked important market lows.

Investors Intelligence recommends for its mutual fund portfolio four Fidelity Select funds: Air Transportation, Energy Service, Environmental Service and Defense funds. These funds charge a 3% load for money not already invested in one of the Fidelity funds and have a 0.75% redemption fee if held for less than 30 days. Thus, their four recommended equity funds are most appropriate for investors already investing in Fidelity.

For those investors not already in Fidelity, one no-load fund that is similar to *Investor Intelligence's* recommended Fidelity funds is Vanguard's Specialized Energy fund. This fund also happens to be recommended for purchase by three of the investment letters I track. It or one of the Fidelity funds mentioned above may be among the best bets for aspiring contrarians as 1993 dawns.

Small-cap stocks are rotten trading vehicles but are ideal for patient, long-term investors.

Capturing the small-cap effect

BY GERALD W. PERRITT



Gerald W. Perritt is portfolio manager of the Chicago-based Perritt Capital Growth Fund and editor of *Investment Horizons*.

HOW WELL my recommendations in this space have done depends on which column you are talking about. "Turning garbage into gold" (Feb. 3, 1992) was not my finest moment. The five stocks spotlighted in that column have declined in price an average of 9% since then. What happened to this "golden" opportunity? Earnings continued to slump amid a sluggish economy that produced less waste. In addition, both the government and private industry postponed remediation projects. Disappointing earnings sent investors scurrying out of these stocks with predictable results. If you own the stocks, hold on. An upturn in the economy should reverse the fortunes of these companies.

But investors who snapped up the stocks of four off-price retailers I recommended (May 25, 1992) have averaged a gain of more than 15%. And those who took my hint and added T. Rowe Price common stock to their portfolios (July 6, 1992) have reaped a return in excess of 25%. Although the stock is a bit pricey, I don't recommend selling just now.

Investors who took my advice about *Video Lottery Technology Sys-*

tems (40 then, now 14) and *Bally Gaming* (24, now 16) avoided taking a short-term bath, as the prices of both of these high-P/E stocks dropped after they reported disappointing earnings (Apr. 27, 1992).

In short, my record during the past year is mixed. If you bought all of the small-cap stocks spotlighted in this column (excluding those mentioned Dec. 7, 1992), you have earned a return of about 5% to 6%.

Remember this, however: Small-cap stocks are my field and you ought not judge small-cap stocks on so short a time frame as a single year. Ever since a University of Chicago researcher discovered that for more than six decades small-firm stocks had been returning on average about 5% more per year than large-cap stocks, Wall Street has sought to capture this so-called small-cap stock effect. More than 100 mutual funds now concentrate their portfolios in the small-firm sector of the market, pension funds allocate a portion of their assets to small-cap stocks and a handful of investment newsletters focus on the small-cap sector of the market.

It's my view that individual investors are best suited to capture the small-firm effect. That's because the trading volume in small-cap stocks is so low that large institutional investors cannot assume significant investment positions without causing severe price distortions. Thus most of the mutual funds and pension funds that seek smaller-company stocks tend to concentrate their investments in the mid-cap sector because of the limited liquidity of the small caps. As a result, they tend to capture only a portion of the excess returns accruing to small-cap stocks.

But the very characteristics that

make small-cap stocks a good bet for individual investors also make them unsuitable for anything but long-term investing. There are three basic reasons for this:

1) Because of their limited liquidity, it is dangerous to dip and dart into and out of small caps. Small-cap investors must look to the longer term for their rewards.

2) Small-cap stocks are not good vehicles for market timers. If you believe, for example, that the stock market is about to take off, you are more likely to gain by investing in blue-chip stocks rather than small caps.

3) Because of the low correlations of return among small-cap stocks themselves, a small-cap investor must hold nearly 30 stocks to obtain the same diversification risk-reduction benefit that can be obtained by investing in a dozen large-cap stocks.

There are several sound principles of small-cap investing that follow from these facts: Diversify widely and be patient. Moreover, don't rush out to buy one as soon as you read about it in my column or in any other source. A sudden increase in investor interest in somewhat illiquid stocks causes their prices to spike upward. Once the additional buying interest wanes, stock prices tend to retreat to their prepublication levels. So little is lost by waiting for the dust to settle.

My fundamental rules are these: Invest for the longer term, avoid trading and the large transaction costs that result, maintain a highly diversified portfolio of small-cap stocks and resist the urge to time the market. Follow these simple rules and you too can profit from the small-cap stock effect even though you will not necessarily outperform the market in any given year. ■

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What did I learn from my 1992 mistakes?
Among other things, don't assume all is right with
a company just because the stock is going up.

Be skeptical of the experts

BY LASZLO BIRINYI JR.



Laszlo Birinyi Jr. is president of
Birinyi Associates, New York, a
financial consulting firm.

FOR THOSE OF US who go public with
our stock selections, the year-end re-
view is often painful, but honesty
demands it and so does the learning
process: If we learn from our mistakes
they are not mistakes in the long run.

The list of recommendations I gave
you since last December did well for
much of the year, and several of the
names did well through the end of the
year. On the whole these early selec-
tions were up about 10.7% versus 4%
for the S&P 500 average. With UAL at
106 at the end of August, I was right
on both price and time; it is up 9.4%.

In early February my FORBES col-
umn was probably the first to high-
light the public's return to the mar-
ket, and in that same issue I warned
that two investor favorites, Coca-
Cola and Philip Morris, were starting
to see distribution. In mid-May I
warned against John Deere, Boeing,
Westinghouse and Monsanto. Since
then, those stocks have dropped an
average of about 19%.

Now for the mistakes. Perhaps the
most costly was advising you to avoid
GM and Ford last January. Both stocks
had sharp gains in the first half, and

while GM gave most of its gain back to
the market, Ford has held on to most
of its advance. (Fortunately, I failed to
mention Chrysler as a stock to avoid;
it is up 160% this year.)

I believe that my bad call on those
two stocks was a result of ignoring a
very fundamental, basic tenet: Never
confuse the company with the stock.
The bad news about the companies—
and prospective huge losses—kept me
from making an effort to evaluate and
appraise the stocks.

Drug stocks were especially bad per-
formers in the year. Having first rec-
ommended Merck at 147 (since split
3-for-1) in May, Pfizer at 80, and
Warner-Lambert at 60 in August, I
thought they were even more attrac-
tive at a 10% or 25% discount to those
prices. What I failed to see was that
things had changed. The dollar con-
tinued weak, Mr. Clinton's stature was
rising, with negative implications for
health care stocks, and overseas econ-
omies—where drug stocks get much
of their growth—were not growing.
So, lesson number two: If an attractive
stock or group of stocks drops in price,
review the background for major
changes before you jump to buy.

Probably my most expensive failure
was IBM. I liked the stock in early
1992; it went up. Having been right,
I perhaps eased up on my analysis and
scrutiny, somehow assuming the ris-
ing price signaled all was well. This is
not uncommon, because professional
money managers often spend most of
their time and effort on the stocks in
their portfolio that are not moving,
showing benign neglect to those that
are going up.

In short, I didn't do enough home-
work. I asked Peter Lynch recently

why, given all the computer databases
and written material, he still visits
companies and their management.
His response: Because he wants to
find out what the company does.
Now we might all think that we know
what IBM does, but in truth very few of
us understand its business.

So you and I depend on experts for
such stocks. In my case, I hoped that
their expectations were reasonable.
Unfortunately, their estimates bore
no relation to the final numbers. What
you can do and I should have done is a
bit more independent research—à la
Peter Lynch. I probably would have
discovered that the analysts have been
wrong in IBM's quarterly projections
for most of the last two years—too
optimistic in some quarters, too pessi-
mistic in others. That would have
made me distrust the optimism they
showed in much of 1992.

The ultimate lesson I learned last
year was that things change. Al-
though individuals were coming back
to the market (and I expect that to
continue), I focused too much on
institutional stocks and might have
done a better job of finding small
consumer stocks to highlight for you.
As the year drew to a close, these
stocks were the strong performers.

With that confession made and les-
sons learned, what do I like for 1993?

Going into the new year, I would
stay with some of the recent winners.
AT&T (49) may be considered plod-
ding, but the stock is up 17% since its
latest earnings report in late October.
It might be a touch rich here but
support for the stock is strong, and
any dips should be looked upon as
opportunities to accumulate. *Texas
Instruments* (47) is another stock that
is likely to show more gains.

But for the year I expect more
orderly group moves and less of the
seemingly random stock moves of
1992. The groups that I think will
deliver in 1993 include brokerage
firms (especially *Morgan Stanley*, 54),
the oils—*Exxon* (61), *Arco* (111) and
Amoco (50) are my favorites—and if
the economic recovery becomes a re-
ality, newspapers. (I'll go with the
New York Times [26] again.)

Among small stocks *Equitable* (14)
may spin off DLJ, and *Fifty Off Stores*
(13), a retailer that had a tough 1992,
should improve in 1993.



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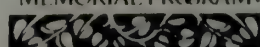
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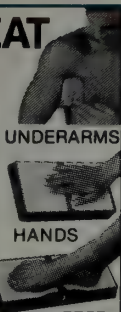
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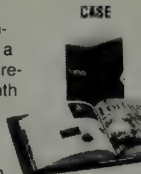
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Beware the hockey-stick effect

WITH WALL STREET abuzz about how growth stocks will lead the market in 1993, it's a good idea to mention some of the pitfalls to growth-stock investing. The key to success, say analysts Michael Goldstein and Michael Sommer of Sanford C. Bernstein & Co., is to avoid the disappointments—companies that fail to meet the general expectation for growth stocks of 15% average annual earnings gains. A formidable challenge, the analysts point out; each year 55% to 60% of all growth stocks fail to meet the test. In 1992 the failure rate was even higher.

With earnings estimates for some growth stocks under pressure as a result of last year's disappointments, Goldstein and Sommer looked at what happened to estimates in 1992, and at estimates for 1993. They found that while 1992 estimates had been trimmed in line with weak growth rates, 1993 estimates for some industries declined by much less. "As a result [write Goldstein and Sommer], the earnings-estimate progression from 1992 to 1993 is quite pronounced—a forecasting phenomenon known as 'the hockey-stick effect.'"

The growth sectors most affected are drugs and retailing, in each of which 1993 earnings growth is thought to be 20% to 35% above the long-term trend." Conclusion: Watch out for major earnings disappointments in these sectors.

In the case of drug stocks, the rate of change in 1992 versus 1993 implies that earnings are expected to rise nearly 20% this year—much higher than the group's long-term growth rate. And for growth retailers, the analysts note, earnings are expected to advance more than 20% in 1993, a substantial premium to the long-term growth expectations for the sector.

Goldstein and Sommer recommend an overweighting in technology and financial stocks, where estimates are rising, as well as medical suppliers. Their portfolio includes the following stocks in these sectors (with

recent prices): Oracle Systems (21 $\frac{1}{8}$), Microsoft Corp. (87 $\frac{1}{8}$), BMC Software (65), First Financial Management Corp. (40 $\frac{1}{4}$), EG&G (18 $\frac{1}{8}$), AMP (56 $\frac{1}{4}$), Dell Computer (39 $\frac{7}{8}$), Pitney Bowes (38 $\frac{1}{2}$), Intel (78), J.P. Morgan & Co. (63 $\frac{5}{8}$), First Tennessee National Corp. (36 $\frac{1}{4}$), First Union Corp. (40 $\frac{3}{4}$), KeyCorp (37 $\frac{7}{8}$), SunTrust Banks (41 $\frac{5}{8}$), Primerica (48), Fannie Mae (73 $\frac{3}{8}$), Geico (61 $\frac{5}{8}$), Progressive Corp. (27 $\frac{1}{4}$), American International Group (117 $\frac{5}{8}$), Golden West Financial (40 $\frac{1}{2}$), Johnson & Johnson (51 $\frac{1}{4}$), Abbott Labs (31 $\frac{3}{4}$), Baxter International (34) and C.R. Bard (34).

Jackpot?

JACKPOT ENTERPRISES, INC. (fiscal 1992 sales, \$63 million) owns and operates some 4,600 slot machines and coin-operated video-poker machines situated in the stores of leading retail and supermarket chains like Kmart, Albertson's and Lucky Stores. The Las Vegas-based company also



Jackpot Enterprises video-poker machines

A winning hand in Mississippi?

owns two slot parlors in Nevada and has a minority interest in a small but thriving casino in Deadwood, S.D.

Like other gambling stocks, Jackpot has benefited as more states have legalized some form of gambling. Jackpot's earnings nearly doubled, to 54 cents a share, in the fiscal year ended last June 30. Estimates for the current year are running around 80 cents a share.

Jackpot is looking to expand in video gaming, already legal in some half-dozen states and about to be legalized in three or four others.

Recently trading at 19 $\frac{1}{8}$, or 24

times anticipated fiscal 1993 earnings, Jackpot's 6 million Big Board shares—insiders own 15%—would appear fully valued. But the best may be yet to come.

Last March Harrison County, Miss., on the Gulf Coast, voted to allow gambling on the water. Several makeshift casinos there already are serving enthusiastic crowds, and by next year there could be ten casinos, all told. One of them, possibly on a converted barge, will be Jackpot's. Jackpot has earmarked up to \$13 million for the project, which should open for business in the summer. Management isn't ballyhooing the barge, but sources think it will help boost Jackpot's fiscal 1994 earnings well in excess of the \$1 or so per share that is currently anticipated by analysts.

—LISA COLEMAN

Is First Chicago for sale?

ON SEPT. 14 First Chicago Corp., the parent company of First National Bank of Chicago, announced it would dispose of nearly \$2 billion of commercial real estate loans, about 9% of its \$22 billion total loan portfolio. At the time, First Chicago stock was trading in the low 30s. Roughly three months later, it's still stuck at those levels. Recent NYSE price: 33, about book value.

If some sources inside the company are right, First Chicago's 79.8 million common shares outstanding are uncommonly cheap. The sources speculate that management is cleaning up the balance sheet to make the \$49.3 billion (assets) bank into an attractive acquisition candidate.

One oft-rumored suitor: BankAmerica Corp., which has a nationwide bank strategy and isn't shy about buying big banks with loan troubles. Too, First Chicago's crown jewel, its \$7.4 billion credit card portfolio, would fit neatly with BofA's \$8.3 billion in credit card assets. Such a merger would make BofA second only to Citicorp among bank card issuers.

Salomon Brothers analyst John Leonard isn't predicting such a deal.

But earlier this year Leonard estimated First Chicago's breakup value at about \$49 a share, nearly 50% above market.

—MARCIA BERS

Growth—or else

EVER SINCE pessimistic Henry Kaufman left Salomon Brothers in 1988 to start his own economic consulting firm, Wall Street has lacked a high-profile Dr. Doom. But Streetwalker may have found the man to fill the void: Giles Keating, 37, the London-based chief economist for Credit Suisse First Boston, a unit of CS First Boston Group.

At a breakfast meeting in New York City recently, Keating predicted that unless economic growth picks up miraculously over the next few years, the world will face a huge increase in labor supply from the emerging regions that will drive down wage rates across the globe. "Before too long," Keating warned, "the world economy must either be propelled onto a much faster, but still noninflationary, growth track, or it will slide into a quasi-depression featuring protectionism, competitive devaluations and hugely disruptive migrations from the poorer regions."

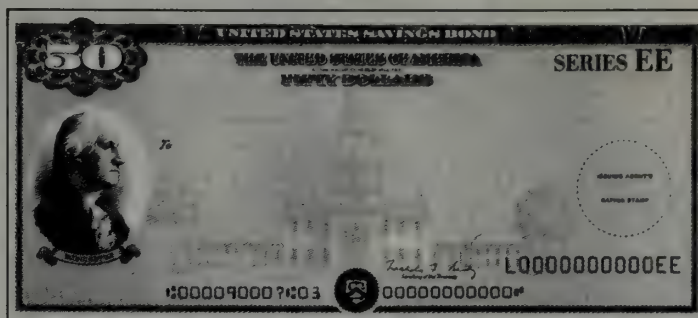
To underscore his outlook for the coming century, Keating quoted Joseph Schumpeter (*FORBES*, May 23, 1983): "Competition from the new commodity, the new technology, the new source of supply, the new type of organization... strikes not at the margins of the profits, and the outputs of existing firms, but at their very lives." Both savers and wage earners, he goes on, must prepare for "a shift towards diminished expectations."

Keating predicts that because of structural unemployment, wages and prices will be subject to more frequent and violent change. He expects the number of corporate defaults to increase markedly.

How would Keating invest his money today? He predicts that the French franc will be devalued, perhaps as a function of the revaluation of the deutsche mark. He therefore recommends selling the franc short against the dollar, and buying French stocks. He is also bullish on the German stock market.

—ROBERT LENZNER ■

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60 years ago

(FROM THE ISSUE OF JAN. 1, 1933)

"Artificial boosting of farm products by extensive use—misuse—of taxpayers' money, has proved a costly fizzle. Although the Federal Farm Board has expended several hundred millions, wheat and cotton, the principal objects of its beneficence, have been selling around the lowest prices ever recorded."

"What we like to think of as the characteristic spirit of America—the spirit of daring, of initiative, of inventiveness, of ingenuity, of aggressiveness, of blazing new and ever new trails—is being worthily exemplified by our motor manufacturers. Whereas leaders in various other industries have been cowed into tremblingly pulling in their horns and abandoning all courage, motormakers have consistently exhibited enterprise, progressiveness, resourcefulness."

50 years ago

(FROM THE ISSUE OF JAN. 1, 1943)

"Last year more than 3.5 million modest-income Americans, in need of cash to pay taxes, insurance or the like, collectively borrowed nearly \$400 million, and deposited an equally large sum, without resorting to a bank



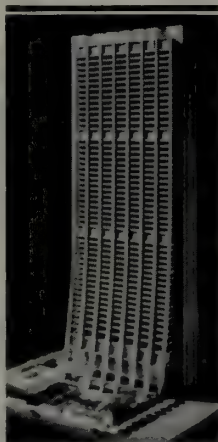
FDR (seated) rewards ten war workers for ideas that aided the war effort.

or small loan agency. The conduits through which this money flowed are called 'credit unions,' and though they already number nearly 11,000 . . . new ones are being established every week."

"The 'weaker' sex continues to replace men for strong-arm work. Only the other day, 12 women were hired as longshoremen (first time in Pacific Coast history)."

25 years ago

(FROM THE ISSUE OF JAN. 1, 1968)



Chicago's First National was among many U.S. banks that built new headquarters for themselves in the late 1960s.

"For years the computer business, except for IBM, has been big on promise, small on profit. Last year the profits started following the promise. . . . To be sure, only International Business Machines and Control Data had computer profits they could brag about. But the orders were literally pouring in."

"Steel shipments declined only about 6% [in 1967], but with costs rising faster than prices, and with the inherent leverage of the steel business, industry profits probably dropped close to 35% from the year before."

10 years ago

(FROM THE ISSUE OF JAN. 3, 1983)

"Women seem to be weathering the recession better than men. November figures showed 40.6 million at work, an actual numerical gain over October and the year before. For men, the November numbers showed 55.7 million at work; this was a drop of 500,000 from October and a drop of 1.2 million from November 1982."



Unauthorized flight gets Forbes balloon in trouble at Chinese artillery range.

"Ford is going all out to lure back the young driver. The number two car-maker has just sold 400 of its new Mustang GTs to the California Highway Patrol and will back that up with a slogan, 'The car that chases Porsches for a living.' To make the sale Ford marked down the cars to \$6,868. . . ."

"With inflation calmer and economic recovery slow around the world, oil prices will continue to soften through the remainder of the winter. Some expect a drop from the present \$34 a barrel for Saudi light crude to \$25 by the time the forsythia start popping this spring."

Is there more fun in being one of the very biggest bankers in another town, or being more or less lost in the scuffle in New York? . . .

The banker whose ambition is to get the most out of life would probably do well to remain in his local community. There he is greatly looked up to and wields great influence. . . . The business pace is not killing. He has time to live. He has time to be neighborly. He has time to read. He has time to play. He has time to be sociable. He has time to make friends and keep friends and be a friend. In short, he can get about all there is to be gotten out of life.

—B.C. FORBES

I can't tell a lie—not even when I hear one.

—JOHN KENDRICK BANGS

I would rather be able to appreciate things I can not have than to have things I am not able to appreciate.

—ELBERT HUBBARD

I do benefits for all religions—I'd hate to blow the hereafter on a technicality.

—BOB HOPE

If this is coffee, please bring me some tea; but if this is tea, please bring me some coffee.

—ABRAHAM LINCOLN

Don't expect other nations to have a democracy like ours—they don't have enough lawyers.

—CULLEN HIGHTOWER

A Text ...

The sluggard will not plough by reason of the cold; therefore shall he beg in harvest, and have nothing.

—PROVERBS 20:4

Sent in by Gordon Raddatz, Oshkosh, Wis. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

I know a fellow who's as broke as the Ten Commandments.

—J.P. MARQUAND

Say what you will about the Ten Commandments, you must always come back to the pleasant fact that there are only ten of them.

—H.L. MENCKEN

She who is born a beauty is born betrothed.

—ITALIAN PROVERB

Imagination is more important than knowledge.

—ALBERT EINSTEIN

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What the world needs is more geniuses with humility—there are so few of us left.

—OSCAR LEVANT

Adam was human; he didn't want the apple for the apple's sake, he wanted it because it was forbidden.

—MARK TWAIN

Angels fly because they take themselves lightly.

—G.K. CHESTERTON

It is only by labor that thought can be made healthy, and only by thought that labor can be made happy, and the two cannot be separated with impunity.

—JOHN RUSKIN

The scientific theory I like best is that the rings of Saturn are composed entirely of lost airline luggage.

—MARK RUSSELL

I'm a great believer in luck; and I find that the harder I work the more I have of it.

—STEPHEN LEACOCK

Don't be afraid to take a big step if one is indicated. You can't cross a chasm in two small jumps.

—DAVID LLOYD GEORGE

Why is the word *tongue* feminine in Greek, Latin, Italian, Spanish, French and German?

—AUSTIN O'MALLEY

Beauty will not season soup.

—POLISH PROVERB

The last time I saw him he was walking down Lover's Lane holding his own hand.

—FRED ALLEN

yth - U.S. manufacturing is busted. Fact - It's thriving.

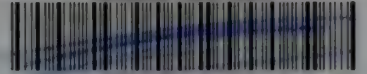
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and fund managers levitate
favored growth stocks



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65	\$13,000,000	+	\$7,150,000	=	\$20,150,000	Buys	\$100,000,000	\$9,067,500	\$90 MILLION
70	\$18,000,000	+	\$9,900,000	=	\$27,900,000	Buys	\$100,000,000	\$12,555,000	\$87 MILLION
75	\$23,000,000	+	\$12,650,000	=	\$35,650,000	Buys	\$100,000,000	\$16,042,500	\$84 MILLION
80	\$35,000,000	+	\$19,250,000	=	\$54,250,000	Buys	\$100,000,000	\$24,412,500	\$75 MILLION

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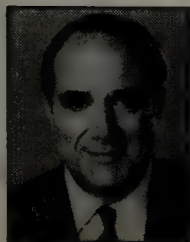
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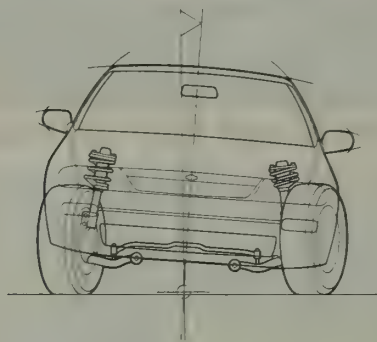
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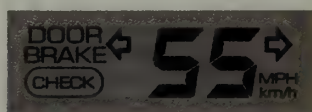
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advice from a
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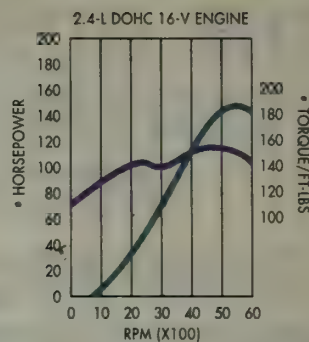


Our Nissan Altima GLE model has a head up display that projects speed and warning signals onto the windshield enabling you to keep your eyes on the road at all times.



At Nissan, we believe a car doesn't have to be ugly to be safe. It doesn't have to be expensive, either.

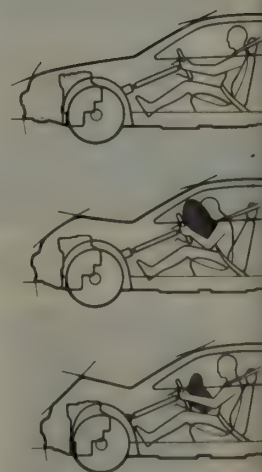
The new Nissan Altima™ employs over forty standard safety features. It starts at \$13,000.** And as you can clearly see for yourself, it doesn't remotely resemble a household appliance.



Sometimes, the best defense is a good offense. Tap the Altima's accelerator and you can quickly escape harm. The car is so responsive, it has more free-wheeling power than a Mercedes-Benz 190E 2



Every Nissan Altima has a standard driver's-side air bag complete with terminals plated in gold to protect against corrosion. It also has three sensors to ensure the air bag deploys only when necessary.



Nissan Motor Corporation in U.S.A. For more information, call 1-800-NISSAN-3, extension 601. Smart people always read the fine print. And they always wear their seat

*Based on independent test conducted by Automotive Marketing Consultants, Inc. 1993 Nissan Altima XE or SE versus 1992 competitive vehicles. Merging power based on



The Nissan Altima's solid DURASTEEL™ unit body includes reinforced door beams, roof and pillars.



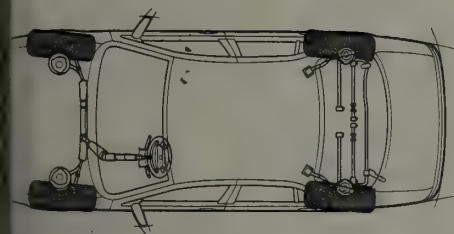
*All braking systems are not alike. When equipped with optional ABS brakes, the Nissan Altima SE can come to a quicker controlled stop than a BMW 325i.**



Introducing the new Nissan Altima. The affordable luxury sedan.



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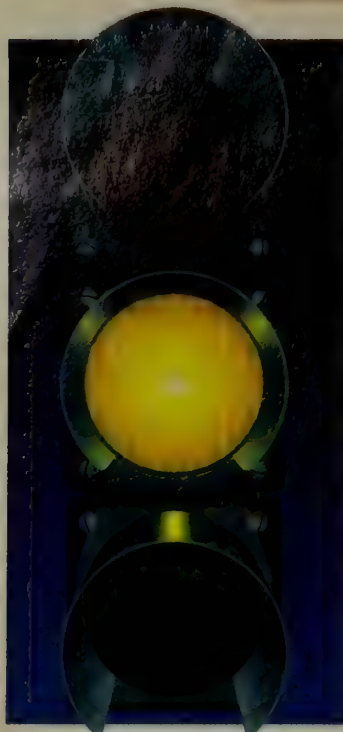
Nissan's Super Toe Control™ system allows the rear wheels to turn in the same direction as the front wheels—providing greater control at high speeds and in emergency handling instances.

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more from a car.™*

Distance required to accelerate from 20-55 mph. Slalom comparison based on course completion time. Braking based on stopping distance from 50-0 mph on a wet road. XE model shown with optional alloy wheels. **Manufacturer's suggested retail price for Nissan Altima XE excluding taxes, title, license, destination charges and options.



"Workers don't hang their brains on the door when they come to work anymore."

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"One Friday in December, there were 16 equity deals on the calendar. Two years ago some underwriters wouldn't do equity offerings on Friday because buyers had their minds on other things."

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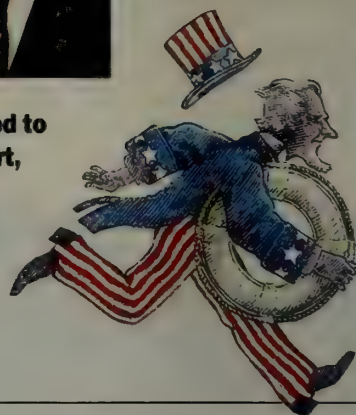


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Myth buster

ELDERLY AMERICANS reduced to eating dog food. A little over a decade ago there was a steady stream of such articles and broadcasts. Jerry Flint got on the story in 1980 and found it was dead wrong. With Social Security, pensions and home-ownership, American old folks were in general well off. The dog food stories petered out and today it is accepted that the older generation has most of the national wealth and easily its share of the national income.

We recently asked Flint to check out assertions freely made during the presidential elections that American industry was being wiped out by those clever, exploitative foreigners. In "The myth of U.S. manufacturing's decline," which starts on page 40, Flint shatters the myth and traces it to a misunderstanding of the nature of productivity.

Jerry Flint's an old-fashioned, hard-on-shoe-leather reporter. A Detroit native, he began covering the auto industry in 1958. And though he's written on a wide range of subjects in the ensuing 35 years—presidential elections, urban riots, Central America, government—he has never lost touch with the Middle West and with the American factory floor—as the article in this issue shows.



Jerry Flint

Japan goes California

FROM OUR PACIFIC BUREAU, Gale Eisenstadt reports on how entrepreneurs and software writers in the Japanese videogame industry are thumbing their noses at Japanese tradition. Since the Atari disaster, Japanese outfits have dominated this worldwide business, but some ambitious Americans are beginning to push them hard. "That is where the money is" starts on page 56.

Principles derived from principals

AMONG THOSE WHO SCRIBBLE REGULARLY on economics, one commentator, *Boston Globe* columnist and long-ago FORBES staffer David Warsh, stands out for the grace of his prose and the depth of his learning. Reading him is such a pleasure you scarcely notice the erudition that informs his judgments. Macmillan, Inc. is publishing a collection of Dave's writings under the aptly descriptive title *Economic Principals*. ("Principals," not "principles," for Warsh doesn't neglect the interplay between ideas and personalities.) Some of the idea-mongers Warsh writes about will be unfamiliar to you, while others—like Robert Reich, Clinton's proposed Labor Secretary and no favorite of Warsh's—are current celebrities. They are all in one way or another relevant to your life and business affairs. The book consists of over 150 short, self-contained profiles, handy for those who must do their reading in snatches. Pick up a copy and raise your economics I.Q. Painlessly.

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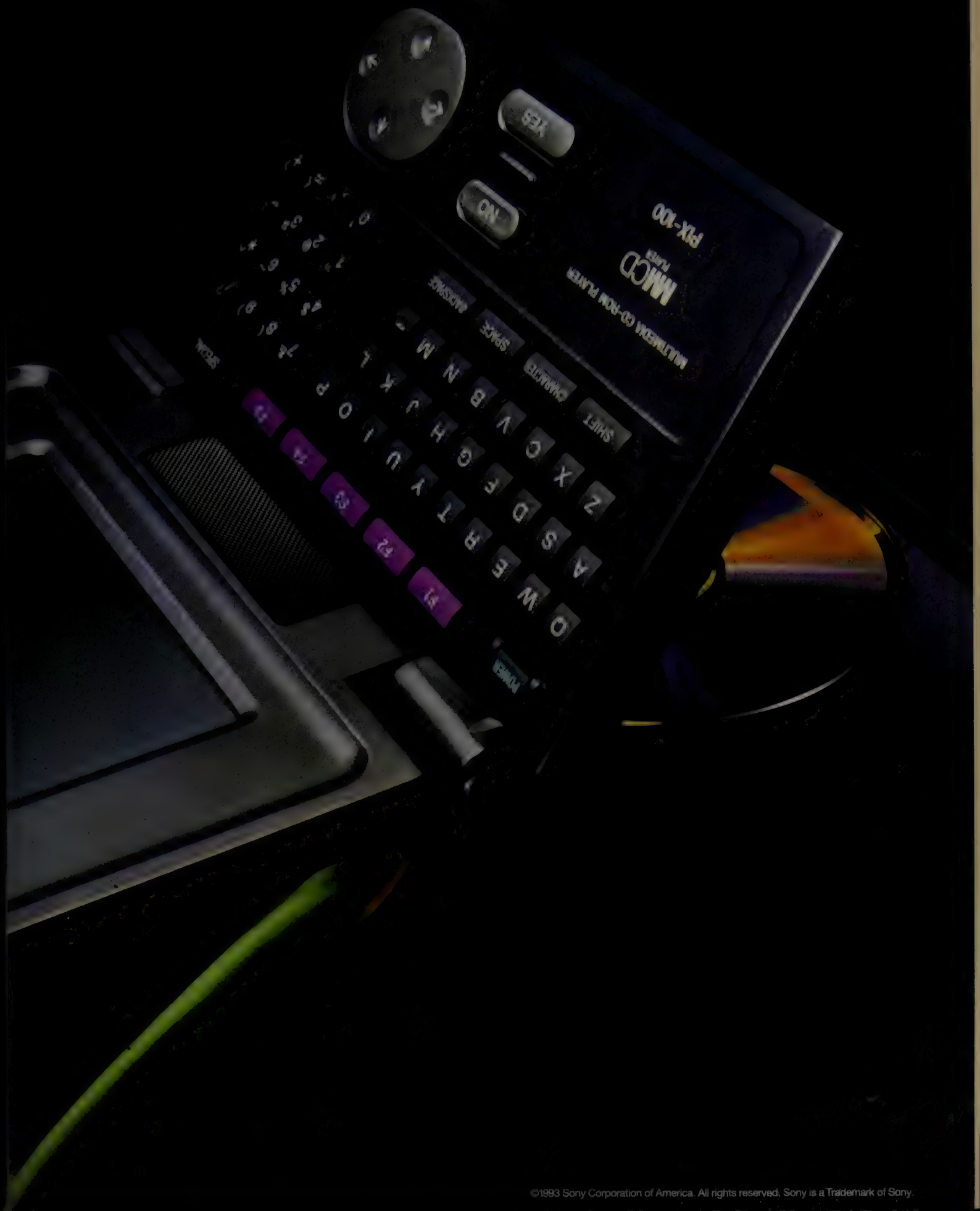
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Jobs' new course

AT FIRST Steven Jobs' Next Computer Inc. was going to take on Apple Computer's MacIntosh line. But that strategy didn't work, so Jobs, who co-founded Apple, announced Next would produce workstations in competition with Sun Microsystems. In the workstation race, Jobs told FORBES, 1992 would be "make or break" for Next (*Apr. 29, 1991*).

But 1992 came and went without making or breaking Next. Jobs did, however, announce yet another new direction for the company. "We switched our entire business strategy last summer," he said at a computer



Charles Nease/Pacific Group

Next Computer's Steven Jobs
Another new strategy.

industry conference in September. "In the beginning we really didn't know what we were doing."

Next's new strategy is to de-emphasize hardware sales (only around \$140 million last year) and focus instead on software. Jobs has developed a new operating system—dubbed Nextstep—based on AT&T's Unix standard. Like Microsoft's Windows product, Nextstep enables a user to control the computer through a series of graphical, on-screen menus. Although Nextstep is currently available only to buyers of Next computers, in mid-1993 Jobs plans to offer a version for any machine run by Intel's powerful 486 microprocessor.

Jobs had originally planned to take Next public no later than this coming spring, but the company's lackluster computer sales have forced him to put those plans on hold. Luckily, Jobs isn't short of working capital. In 1989 Japan's Canon Corp. invested \$100 million in return for one-sixth of Next. Canon also extended a \$55

million line of credit to Next, enough to see the company into 1994, says Next President Peter van Cuylenburg. He adds that Canon will convert any outstanding loans to equity if Next ever goes public. —JULIE PITTA

Down but not out

"STORES FOR OUR TIMES." That's how FORBES once characterized convenience stores, where consumers could stock up on gas, milk, eggs, cigarettes and soda—and rent a video and use the automatic teller machine—all in one stop (*Nov. 3, 1986*).

But in recent years, just about the only people making money from big convenience store chains have been bankruptcy attorneys. Among the big convenience store operators that have sought bankruptcy protection in the last few years are Southland Corp., Circle K Corp., National Convenience Stores, Cumberland Farms and Sunshine-Jr. Stores.

What happened was this: Safeway and other grocery and general merchandise stores began attracting the harried two-income family shoppers by staying open later, and by pricing traditional convenience store staples very competitively. Meanwhile, major oil companies like Texaco, Mobil and Arco opened their own convenience stores—and offered cheaper gasoline to boot.

But don't write off the convenience store industry yet. Thousands of unprofitable stores have been closed. Moreover, store operators have invested heavily in point-of-sale scanners, thus enabling them to tailor their merchandise mix to the characteristics of specific markets.

"I think the numbers in the last half of 1992 and first part of 1993 will support the theory that the industry is starting to show increased sales and profitability per store," says Barbara Grondin Francella, executive editor of *Convenience Store News*.

One good omen: At Circle K, which has reduced its store count to 3,000 from around 4,600 since filing for Chapter 11 protection in May 1990, same-store merchandise sales increased 11% in the six months ended this October, compared with the same period in 1991. Operating earnings were also up 11%, to \$28.3

million, in six months.

Maybe our 1986 characterization will turn out to be apt after all.

Garbage predictions

"THERE'S WAY MORE supply than demand for services in hazardous waste," laments Francis Williams. That plaint is quite a turnabout for the chairman of Tampa, Fla.'s Kimmins Environmental Service Corp. Two-and-a-half years ago Kimmins' annual revenues were running around \$100 million, and Williams was predicting that they'd approach \$500 million by 1995 (*June 25, 1990*). The company's stock surged from a split-adjusted 2½ a share, when Kimmins went public in 1987, to around 9 in 1990.

At the time, however, *FORBES* noted Kimmins used aggressive accounting techniques to recognize income early and had bungled a couple of big cleanup jobs. Sure enough, after earning \$4 million (35 cents a share) in 1989, Kimmins lost \$1.8 million the following year. In 1991 Kimmins earned \$2.3 million on revenues of \$101 million—but lost money again in the first nine months of last year.



Kimmins Chairman Francis Williams
He missed his target.

The stock? It now bumps along at around 2½ a share.

On the positive side, Williams says Kimmins' solid waste collection and disposal operation—a business the company entered in 1989—was profitable for the first time in the fourth quarter and should generate revenues of around \$25 million in 1993.

Williams now predicts that Kimmins' revenues will reach \$200 million to \$300 million by 1995. But to judge from the price of Kimmins' stock, Wall Street isn't taking the prediction seriously.

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Phony phones

WANT TO IMPRESS people without spending a lot of money? One of the hottest-selling items in office supplies stores in 1993 is expected to be a \$20 fake portable cellular phone, according to TOPP, a Madera, Calif.-based buying co-op of 105 independent office products dealers.

The phony phone, made by Yafa Pen Co. of Canoga Park, Calif., comes complete with a bogus antenna. The phone itself is actually a calculator, and inside are a pen, a pencil, eraser, ruler and tube of



Yafa Pen Co.'s fake cellular phone
Stores should be ringing up real sales in 1993.

glue. The earpiece contains a small notepad.

This is GM?

HOW HARD WILL General Motors work to sell a car these days? Plenty hard, if what recently happened to Mark Schweber is any example.

Schweber, a New York financial analyst who owns a 1985 Toyota Corolla, wanted a new American car. He liked the Geo Prizm, a GM car built at a California plant by a GM-Toyota joint venture. One problem: the Geo Prizm's fold-down rear seat allows access to the trunk from inside the car; Schweber feared this made the trunk an easy target for thieves.

On the other hand, the Toyota Corolla, which is the twin of the Geo Prizm, has a lock that eliminates this potential problem. So Schweber wrote a letter to Jack Smith, GM's new chief executive. "Why'd you design



General Motors' American-made Geo Prizm
GM seems willing to go that extra mile to sell a car.

your car this way?" asked Schweber. "If you'd only done it like the Toyota I would have bought your car."

Schweber wasn't expecting a reply. But two weeks later he got the following message on his answering machine at home from John Berberich, a GM executive in Detroit: "We want that sale, and we've contacted engineers at the factory to see if they can retrofit a new model, or design a kit that dealers can put on cars in stock. . . . Please give us a chance to give you what you want." Berberich even left his home phone number.

"I didn't give them my home number," says a flabbergasted Schweber. "They must have looked it up."

Schweber recently broke his leg stepping into a parking lot pothole. When the cast comes off he will get back in touch with GM. If it can lock that trunk, the sale's a lock.

—JERRY FLINT

The entrepreneurial President?

ALAN PATRICOFF, chairman of the New York-based venture capital firm Patricof & Co. Ventures, has backed such startups as Apple Computer, Office Depot and Cellular Communications. After raising money for Bill Clinton, Patricof is now advising him on how to achieve the President-elect's goal of creating more jobs in small entrepreneurial companies.

Patricof believes he has convinced Clinton that if he wants to create jobs, he'll have to help Patricof and his fellow venture capitalists. Patricof isn't sure, but he thinks the new Administration will soon propose legislation providing that anyone who invests up to \$5 million in a company capitalized at less than \$100 million

will pay only half the regular capital gains tax rate, if there's a gain. Moreover, any investment of up to \$5 million that stays in place for ten years would be totally free of capital gains taxes. Also being considered to help new computer and biotech firms is a proposal that startups be allowed the permanent use of the research and development tax credit, as well as a longer period during which they can use net operating loss carryforwards to offset earnings. —ROBERT LENZNER

Capitalism on the march

LAST FALL Boris Yeltsin's government trotted out the first of 6,000 state-owned companies to be converted to private ownership by voucher: Moscow-based Bolshevik Biscuit Co., billed as Russia's RJR Nabisco. Here's how the deal, advised by Credit Suisse First Boston, worked:

Russia's savings banks distributed vouchers for shares in Bolshevik Biscuit free of charge to any Russian citizen who cared to play the market. The vouchers are later converted by auction into stock representing 44% of the company's equity (employees and management bought 56%).

The face value per voucher was initially set at 10,000 rubles, or about \$25, but non-capitalist-minded Russians simply sold their vouchers, sometimes for just a bottle of vodka or two. This pushed the market price to 40% of face value. It was a field day for those



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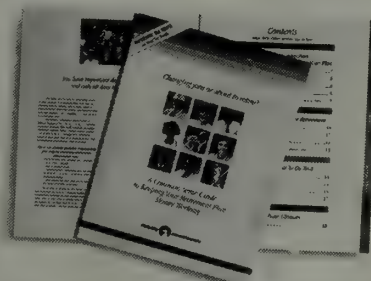
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Russians who know a capitalist bargain when they see one. They began accumulating all the vouchers they could find. In towns outside Moscow the vouchers were reportedly being accepted instead of rubles by some entrepreneurial prostitutes. The vouchers recently traded back up to as much as 90% of face value. —R.L.

Brother, can you spare a few million quarters?

THE Federal Reserve Bank of Minneapolis used to ship surplus quarters to other regional Federal Reserve Banks, but the Minneapolis folks found themselves short of two-bit pieces.

What happened? Slot machines. Each new slot machine requires about 1,000 quarters, or \$250 worth, to get up and running. Between April and October of last year, the Mint shipped \$8 million worth of quarters, or ten emergency truckloads, to the Minneapolis Fed so it could service the demand created by gambling on Indian reservations in Minnesota, Wisconsin and South Dakota in its region. And the Federal Reserve Bank of Kansas City, whose region includes Colorado, has also seen a big jump in demand since three towns in that state were okayed for gambling in 1991.

Some 50 Indian tribes in 16 states have signed compacts with state governments allowing them to set up casinos on their land. But not to worry, says a Mint spokeswoman. She estimates there are 15.6 billion quarters now in circulation. Moreover, once the quarters are in the slot machines, they don't need to be replaced too rapidly. —AMY FELDMAN



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a simple lack of information.**

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Sharing solutions to social problems

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Gays in the military

SIR: Re "Homosexuals in the military" (Dec. 21, 1992). Sowell insists that if the military openly accepts gays "group morale" will decline. So what? Morale likewise declined for a time after Truman forced the integration of blacks into all-white forces, yet the military soon overcame its prejudice and got on with its duties. The same happened when women joined all-male units: Morale drooped, then recovered.

—HUNTER MADSEN
San Francisco, Calif.

SIR: Despite a reprehensible history of discrimination, the military has managed to assimilate women, blacks, Jews and Asians. Colin Powell, himself a beneficiary of integration, has conceded that the military will also manage to assimilate homosexuals after their "official recognition."

—JEFFREY TRAVIS ATWOOD
Larchmont, N.Y.

SIR: Hasn't there been recent news about inappropriate heterosexual conduct in the military? Perhaps heterosexual people should be banned.

—K. WHITE
Chicago, Ill.

Creative investing

SIR: Social security system investment practices squander the opportunity to safely enhance and prolong the current surplus (*Fact and Comment*, Sept. 28, 1992). What responsible pension fund manager would invest 100% of their portfolio in government securities? Reallocation of a portion of the surplus to corporate bonds and equities would greatly enhance yield and provide a much needed stimulus to the economy.

—JEFFREY S. HORTON
Arden Hills, Minn.

Not so special

SIR: Re "Here come the cross-shoppers" (Dec. 7, 1992). Specialty stores aren't so special, anymore. Basking in success, some have forgotten their genesis. Pursuing growth, they opted to stretch their merchandise lines along with cookie-cutter store proliferation. Now, looking much like de-



partment stores, they've lost that imperative of a clear and distinctive focus. When definition blurs, performance erodes. In retailing today, to be a generalist is to be boring.

—STANFORD H. SHOLEM
*Retailing consultant
The Sholem Co.
Champaign, Ill.*

Vital statistics

SIR: Re "Murphy's Law" (Dec. 7, 1992). Steelcase introduced its first ergonomic seating line in 1974, two years before Herman Miller's first ergonomic chair.

I predicted that industry sales will increase 5% to 12% next year. But I did not make that prediction for Steelcase.

Frank Merlotti retired as chief executive officer from 1988-91. He's currently chairman of the Executive Committee for the corporation. Frank continues as a key and vital contributor to our company.

—JERRY K. MYERS
*President and Chief
Executive Officer
Steelcase Inc.
Grand Rapids, Mich.*

Worthy recipients

SIR: Re "Taxation without representation" (Nov. 23, 1992). Clients served by Interest on Lawyers' Trust Accounts-funded lawyers are, for example, victims of domestic violence, the homeless, mothers trying to raise families without adequate child support, and the elderly in need of nursing and other health care.

—J. MICHAEL MCWILLIAMS
*President
American Bar Association
Chicago, Ill.*

Credit due

SIR: Re "The thin line" (Oct. 12, 1992). The supporting charts used in the article were from a Booz, Allen & Hamilton special report entitled "Consolidation in Aerospace/Defense—What's Next?"

—CYRUS F. FREIDHEIM JR.

Vice Chairman

Booz, Allen & Hamilton Inc.
Chicago, Ill.

Track them down

SIR: Re "Home on the range" (Nov. 9, 1992). There is a track called Santa Anita that is located in Arcadia, Calif. Also, Hollywood Park is located in Inglewood, Calif. It is not located in Florida.

—DAVID SANDERS

Chesterfield, Mo.

Purchase price

SIR: Procter & Gamble didn't pick up Richardson-Vick's for a paltry \$1 million (*Informer*, Nov. 9, 1992). It was \$1 billion.

—RONALD J. FERLAND

Howard AFB, Panama

A pressing issue

SIR: Re "Long on claims, short on evidence" (Nov. 23, 1992). The primary purpose of identifying abused youngsters is not to punish the suspected perpetrators but to protect children. Children may die if agency staff members wait for absolute proof before acting.

—ROBERT D. GILLETTE, M.D.

Poland, Ohio

Computer fraud

SIR: Re "The playground bullies are learning how to type" (Dec. 21, 1992). Nowhere do you mention the contributory negligence of the "victims" of computer crime. It is becoming common for business to connect its money to phone lines protected only by transparent security codes. Unless the plugs can be pulled on lousy computer security, we will run out of cops before we run out of hackers.

—GORDON ANDERSON

Beavercreek, Ohio

Forbes ■ January 18, 1993

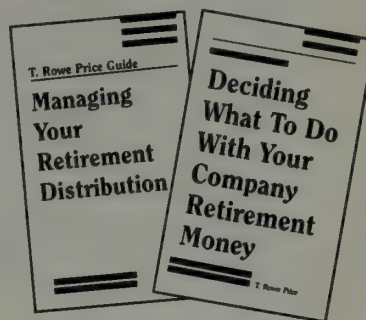
NEW ROLLOVER LAW
FOR 1993

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This is a highly detailed and surreal collage composed of numerous overlapping photographic and painted elements. The central focus is a hallway with a black and white checkered floor, leading to a doorway. To the left, there's a staircase with a blue wall and a white railing. Above the staircase, a large, ornate chandelier hangs from the ceiling. To the right, a large, dark, ornate door or cabinet is visible. In the bottom left, there's a yellow wall with a large, dark, ornate floral arrangement. In the bottom center, a large, ornate mirror or painting is shown. The collage also includes various other elements like a fireplace, a chandelier, a large floral arrangement, a staircase, and a checkered floor, all arranged in a dense and overlapping manner. The overall effect is one of a complex, multi-layered visual composition that defies simple categorization.

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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*



HOW FORBES CURBED SPIRALING HEALTH CARE COSTS

A YEAR AGO, like numerous other companies, we were hit with major hikes in our health insurance premiums. We responded with traditional cost-cutting measures such as boosting deductibles, but we knew that these measures alone weren't enough. They had no incentives for individuals to fundamentally change their health care habits.

Our solution was to reward those who stay healthy and who avoid filing claims for routine medical expenses. Starting last January, FORBES each year offers people an opportunity to earn up to \$1,000 of extra, *aftertax* income.

Here is how it works: If someone's claims for the calendar year are under \$500, we not only pay him or her the difference between that total and the \$500 but we also double it; moreover, individuals will pay no payroll or income taxes. Should an employee submit medical expenses of \$200, his reward would be \$600 ($\$500 - \$200 = \$300$; $\$300 \times 2 = \$600$).

People here quickly recognized that each dollar of claims costs them \$2 and that they win if total submissions are under \$1,000 (if your expenses are \$800 and you don't submit them to the insurer, you will receive that \$1,000 and come out ahead by \$200).

Our goal was to cut down on routine, time-consuming claims and mountainous paperwork.

Result: At a time when health insurance premium rates are rising an average of 20% to 25%, ours are going down almost 10%. Those savings will cover most of the payouts to our now price-conscious colleagues here. Our overall

health expense increases will be a minuscule fraction of the national average.

Our program has national implications in that we rely on individuals to do the job. All other approaches are top-down. They depend on bureaucrats, insurers and employers to control costs.

What is so remarkable about this whole debate is the uniform assumption that individuals can't operate in this market the way they do in every other market. But you don't have to be an engineer to buy an automobile, a carpenter to buy a house or a programmer to purchase a computer. So, too, you don't need to be a physician to make health care choices, to seek, say, the best price for prescriptions.

The U.S. doesn't have genuine free markets in health care because of the tax code. Insurance premiums are deductible for employers but not for employees. As far as individuals are concerned, health plans are almost all stick, no carrot. People should get the deductions and, if unemployed, tax credits to buy insurance. That

way individuals and families could purchase insurance tailored to their own needs, not what some politico or pressure group or employer thinks they should have. Their coverage would be portable and thus not dependent on a particular job.

Most individuals would opt for a big deductible, which is, in effect, what we have done here at FORBES.

With free-market-oriented tax changes, tens of millions of Americans would police this market.



"No, no! We attach the IV to the patient's wrist, nurse. We only *bill* them through the nose."

TALKING ABOUT DEDUCTIBLES...

Most corporate plans have a fixed amount for individuals and a fixed amount for families. At FORBES, the deductible is fixed at 1% of your salary. The more you earn, the more you pay. Isn't that a fairer approach?

MALPRACTICE

THE HEALTH INSURANCE ASSOCIATION OF AMERICA, representing 270 insurers, is calling for a major expansion of Washington's role in health care. They want a law requiring that all Americans have health coverage. The govern-

ment would mandate "essential" benefits, but employees would be hit with taxes if their company plans were too "generous." Washington would have a larger role in controlling fees charged by doctors and hospitals.

The trade group figures that change is coming and it might as well cut as good a deal as possible for its industry. Experts estimate that universal coverage would mean \$30-to-\$50 billion in extra insurance premiums.

Insurers are making a grievous mistake. Their plan is but a halfway house to a nationalized system such as exists in Canada, Britain and most other European countries.

They are dreaming if they think their program guarantees them a profitable place in such a brave new health world. Price controls and health benefit caps will lead to rationing. So-called essential benefits will be determined as

much by political muscle as by medical necessity. Research and development will suffer as has happened in other socialized systems. Lifesaving new technologies will lag.

It wouldn't be too many years before consumers and politicians began asking, "Who needs these insurers anyway? Look at all the money we could save on paperwork and legal expenses by cutting them out."

Why isn't the HIAA advocating *true* free-market reforms such as the tax code changes touched on previously?

Why, when nationalized programs elsewhere are falling apart, are we going this route?

THE BEST ECONOMIC STIMULANT

would be a reduction in the capital gains tax. Wall Streeters Robert Rose (*right*), managing director at Crédit Agricole Futures Inc., and Andrew Morse, senior vice president at Shearson Lehman Brothers, have devised a way that Clinton can help stimulate the flow of capital to new ventures without breaking his campaign promise not to reduce the rate: Defer paying tax if the capital is reinvested.



They propose a sliding scale—the longer the money is put to work, the greater proportion of the gains are tax deferred. The idea is derived from the way tax laws treat the sale of primary residences—no tax is paid if the house is sold and the money used to buy another house. Their plan is not as clean-cut as a simple rate reduction, but it is infinitely better than what we have now.

LAWRENCE WALSH—A LATTER-DAY JOE MCCARTHY

PRESIDENT BUSH courageously did right in pardoning Cap Weinberger and five other Iran-Contra figures.

After years of failure, Lawrence Walsh went after Cap in a desperate attempt to restore the special prosecutor's tattered reputation. Cap forcefully resisted Walsh's attempts to compel from him false testimony implicating Ronald Reagan, Walsh's real target.

Last September, Walsh's principal charge against Cap was summarily dismissed by a federal judge. Walsh maliciously, unethically reinstated the charge just before the elections in order to damage President Bush's campaign. But weeks later, the charge was once again thrown out.

Walsh's professional misconduct apparently parallels his personal behavior: He has been accused of padding his expense account and of dodging his income taxes by misstating his prime place of work.

Walsh's malignant actions highlight how the special prosecutor's office is a perversion of American justice. It, in effect, answers to no one. Its budget is unlimited. There is no time limit on its activities. Its targets face a medieval choice—cop a plea or fight a legal battle, costing a defendant over \$1 million.

The enabling legislation for this office, which recently expired, should not be renewed.

THOROUGHbred MYSTERY

Driving Force—Dick Francis (G.P. Putnam's Sons, \$21.95). Thrilling mix of murder, mayhem, jealousy, strange diseases (computer and horse varieties), romance (G-rated) and plain, good detective work. The author races another mystery to the winner's circle.

Excerpt: "Do you mean," I asked slowly, "that you could take some flu virus from someone and transport it for miles and infect someone else, without the people even meeting?"



"Sure, you could. But why would you?"

"Malice?" I suggested.

Excerpt: She smiled: "What an incredible trainer, forgetting his runners!"

"Not so incredible. Trainers make shattering mistakes, declaring the wrong horse sometimes and forgetting others altogether. Benjy's eccentric, but he's not the only last-minute merchant we deal with. Many trainers change their minds violently, some when the clock's begun striking."

CLINTON AND KENNEDY

"What Next?": An interview with Steve Forbes on the MacNeil/Lehrer Newshour

Robert MacNeil: As a Republican and a businessman, as well as an editor, what expectations do you have of the incoming Democratic President?

Steve Forbes: Well, I hope that he'll follow the example of John Kennedy and not fall into the trap Jimmy Carter did. Kennedy was known as a social liberal in favor of civil rights, but he was also in favor of

a strong economy. He proposed significant reductions in personal and corporate income taxes, brought in the investment tax credit, advocated cutting the capital gains tax, kept the dollar very strong and laid the foundation for a great boom in the 1960s. By contrast, Carter fell into the trap of high inflation, weakening

(continued on page 110)



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...an and Japanese."

—*AutoWeek*



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destination fee extra. Actual prices vary. [†]US content 72%. Assembled by Chrysler Canada. Buckle Up For Safety.

Other Comments

Take Him Seriously

SERBIAN PRESIDENT Slobodan Milosevic is no longer viewed as a Serbian nationalist bent on limited gains but as a ruthless land-grabbing tyrant carrying the Serbian Orthodox banner and cultivating ties with Russian hard-liners in Moscow.

President Bush fears that if Serbia tries to take over Kosovo, at least three, possibly five countries would be sucked into a major regional war: Albania on the side of Kosovo, Greece on the side of Milosevic, Macedonia out of fear that it would become Serbia's next target, Turkey to defend Islam, and Bulgaria acting in Russia's interest. That's a European war.

—ROWLAND EVANS & ROBERT NOVAK, *New York Post*

Waves of Democracy

THOUGH THE U.S. now broadcasts [news to other countries] in dozens of languages, its reach is still limited. That problem would be solved with a new radio relay station that Voice of America, Radio Free Europe and Radio Liberty plan to build in Israel.

But some State Department officials, long hostile to an assertive U.S. foreign policy voice, argue that the collapse of communism makes the Israeli transmitter unnecessary, that as the world becomes freer, the need for Western broadcasting will disappear.

That just isn't so. Even if a country has a free press, it can be shut down on a general's command, as the coup last year in Moscow proved. Shortwave broadcasting is the only way to reliably transmit news to a closed society. Simply ask the world's people who continue to listen to their programs.

—Wall Street Journal editorial

Comprenez-Vous?

THE TIME has come for the English-speaking world, and the U.S. in particular, to communicate to the French our desire for a more open frame of mind on their part: to, in effect, answer tariff barriers with tariff barriers.

I would ask English-speakers to weed French words and phrases from their vocabulary: *avant-garde, savoir-faire, tour de force, de rigueur, fait accompli, déjà vu, raison d'être, laissez-faire, je ne sais quoi, comme ci comme ça, quelque chose, quel dommage.*

I would then ask English-speaking visitors to Rheims to stop trying to pronounce the town's name correctly—that is, trying to make it sound like something between a clearing of the throat and a sinus attack. As we all know, the French have a special organ in their noses that makes such pronunciations effortless. Speakers of English should do what comes naturally, and in a loud voice refer to Rheims as “Reems.” Similarly, on visits to the

Louvre (“Loov”), English-speaking visitors should not try to pronounce the name of the artist Ingres the way the French do—as if a couple of fingers had been stuck down their throats.

With 9 million English-speaking tourists visiting every year, it shouldn't take more than a few summers before the French get the message.

—CULLEN MURPHY, *The Atlantic*

It's the worst job in Washington [chief of staff]. The world is mean as hell, and it's going to hit your desk every day.

—HOWARD H. BAKER JR., former White House chief of staff, *New York Times*

Who's the Real Beast?

I FOUND in hunting release from many a secret struggle with adversaries too subtle or too stupid in turn, too weak or too strong for me; this evenly matched battle between human intelligence and the wisdom of wild beasts seemed strangely clean compared to the snares set by men for men.

—MARGUERITE YOURCENAR, *Memoirs of Hadrian*

But He Can Try

WHILE SUGGESTIONS for the substance of Bill Clinton's inaugural address vary widely, there is little disagreement about the advice that the notoriously long-winded president-elect is getting about its length: “Keep it short!” Still, few expect Clinton to match Franklin Roosevelt, whose wartime speech lasted only six minutes. The all-time record belongs to George Washington, who spoke for two minutes in 1793.

—CHARLES FENYVESI, *U.S. News & World Report*

Up to a Point

TO WIN back my youth there is nothing I wouldn't do—except take exercise, get up early, or be a useful member of the community.

—OSCAR WILDE, in *Oscar Wilde*, by Richard Ellmann



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The Guardian has built its reputation of strength and stability one day at a time since 1860. That's over a century of delivering quality products and service to individuals, groups and corporate policyholders. And over a century of making sure our fiscal house is in order.

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THE 50 LARGEST LIFE INSURANCE COMPANIES

RANK 1991	LIFE INSURANCE COMPANY	NET INCOME AS % OF ASSETS
1	GUARDIAN LIFE OF AMERICA	2.7
2	PRUDENTIAL INSURANCE COMPANY	2.5
3	JOHN HANCOCK LIFE INSURANCE COMPANY	2.3
4	ROYAL LONDON LIFE ASSURANCE COMPANY	2.2

Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*



WHY WE ARE IN SOMALIA

THE IMMEDIATE SUCCESS of our military's landing in Somalia has perhaps postponed the debate that began rumbling just before President Bush's decision to go in. That debate revived many of the isolationist/interventionist arguments of the past.

Many opposed to our intervention in Somalia argue that while this action may be justified, the real question is where we should draw the line. Should we not also take similar steps in other countries, such as Bosnia, to prevent the kind of hunger and killings Somalia has suffered?

Others have trotted out the cliché that America cannot be the world's policeman.

The best answer to this was stated nearly 50 years ago by the most famous orator of our century. He said that in his lifetime the long arm of destiny had reached out to the U.S. twice, and twice the U.S. had responded. The price of greatness, he said, was responsibility. One could not rise to be "in many ways the leading community in the civilized world" without being "involved in its problems, convulsed by its agonies and inspired by its causes." He continued, "We do not war primarily with races as such. Tyranny is our foe, whatever trappings or disguise it wears, whatever language it speaks, be it external or internal. We must forever be on our guard, ever mobilized, ever vigilant, always ready to spring at its throat." Of the Anglo-American relationship, he said, "In all this, we march together. Not only do we march and strive shoulder to shoulder at this moment under the fire of the enemy on the fields of war or in the air, but also in those realms of thought which are consecrated to the rights and the dignity of man."

Winston Churchill said this when accepting an honorary degree at Harvard University in 1943.

The U.S. has always tried to help other nations suffering from catastrophes, natural or man-made. It is a response carried over from our own frontier days, and we respond this way abroad not only because we are a large and wealthy nation but also because we know instinctively that it is the right thing to do. We have gone into Somalia not, God knows, from any territorial ambitions of owning or occupying that wretched land but from as purely an

altruistic motive as is possible to imagine.

Even with the Marshall Plan, in which altruism played a major part, our own national interest urgently required that we help Europe rebuild and that we help relieve its suffering during that long and difficult process. But in Somalia we have nothing to gain; we simply must fulfill the obligations that go with our size, our wealth, our resources, our capabilities and our conscience.

There is no government in Somalia with which we can negotiate or work. What the country has are mobs of heavily armed, drug-crazed youths under no form of discipline,

command or control. Ample food for this starving country has been, and will be, sent by us and by many other nations. But unless and until the bounty can reach the people who most need it, it might just as well remain across the seas. If there were any other method of dealing with the armed thugs, thieves—and worse—who steal and sell the food for their own gain, it would have been tried. But in a country without a government, where theft, murder and intimidation go

uncontrolled, there is obviously only one solution: military power—not to conquer but to instill some semblance of law and order to allow the hungry to be fed.

Sadly, it has become apparent that only the U.S. has the capability and resolve, the political courage and wisdom to do this. No other country and no international organization was willing to take the lead in effective action. When President Bush offered to lead the task, the U.N. finally was persuaded that we could do this. And, as usual, our troops have performed magnificently.

We cannot allow hunger, tyranny and the most vicious violations of civilized behavior the world has seen in a long time to continue unchecked. No matter what the isolationists may say, the mass starvation and death in Somalia, caused largely by criminal anarchy, diminish us all.

It is quite apparent that without the U.S.' leadership, nothing would have been offered to remedy the situation except, perhaps, a few resolutions carefully couched in nonprovocative language. This is a proud moment in America's history. Our leadership and our military will be as honored abroad as they should be at home. ■



Somalia's youth hold the country hostage.

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A Chinese riddle for President Clinton

CHINA'S GROSS DOMESTIC PRODUCT expanded by 12% or so in 1992 in real terms, the highest rate in the world. Industrial output swelled by 20%. The country's exports also surged by 20%. According to estimates by Kleinwort Benson Securities (Asia), China's exports rose to \$86 billion last year.

China's trade surplus with the U.S. in 1992 probably touched \$15.5 billion. That's up more than 50% from the figure in 1990, and gives China the second-largest surplus with the U.S.

As one of the world's lowest-cost producers, China is grabbing global market share in products such as toys, garments, footwear and consumer electronics that were until recently dominated by Korea, Taiwan and Hong Kong. After more than doubling in five years, China's exports in 1992 topped those of Taiwan and Korea for the first time (see chart).

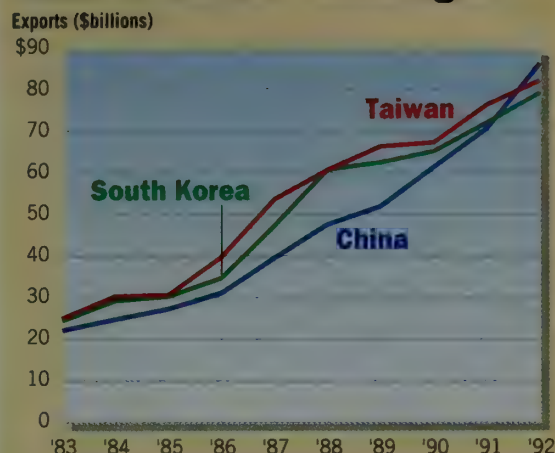
Note that on paper Hong Kong's total exports are greater than China's. But 75% of those are "re-exports"—entrepôt trade, mostly involving exports to or from China, and not locally produced manufactures.

Helping to feed China's economic boom is burgeoning foreign investment. This has been stimulated by easier remittance of foreign exchange, greater access to the domestic market and the opening of more cities and more sectors, such as retailing, real estate and banking, to foreign investment. An estimated \$9 billion was invested from abroad in 1992, more than double the amount in 1991. Direct investment contracts worth \$31 billion were signed in the first nine months of 1992, nearly triple the value for all of 1991.

Is China growing too fast for its own good? Inflation—now 13%, officially, in the major cities—is building, because of overinvestment in the inefficient state sector, and shortages of energy and transport.

This could be worrisome. In 1988, the last

China is the new Asian tiger



Sources: IMF; Taiwan government; Kleinwort Benson Securities (Asia)

Fueled by an economic boom and liberalized inward investment, China's exports increased by nearly 20% in 1992. The country is now the largest Asian exporter outside of Japan.

period of high growth, the economy overheated and inflation surged to 30%, helping to fuel the pro-democracy demonstrations that culminated in the tragedy at Tiananmen in June 1989. Look for some mild austerity in 1993, with the government tightening fiscal and credit policy to combat inflation.

China's boom poses an interesting conundrum for the Clinton Administration. If it follows a China policy in line with the new President's views before he comes into office (linking continued most-favored-nation treatment to progress on human rights), the U.S. risks losing a potentially vast export market, particularly for capital goods. China already has \$50 billion in foreign exchange reserves, some of which it is eager to spend on productivity-enhancing equipment.

—ANDREW TANZER

Services with a smile

THE U.S.' OVERALL trade picture is nothing as bad as 1992's \$77 billion merchandise trade deficit makes it seem. Exports continue at record levels, especially to developing countries. They even continued growing a little to Europe (by 0.8% in the first ten months of 1992), despite the deep recession there.

Trade in services continues to earn handsome surpluses for the U.S.—net exports of services probably hit \$56 billion or so last year, up from \$6.4 billion in 1986. Together with the \$12 billion or so the U.S. makes in net finan-

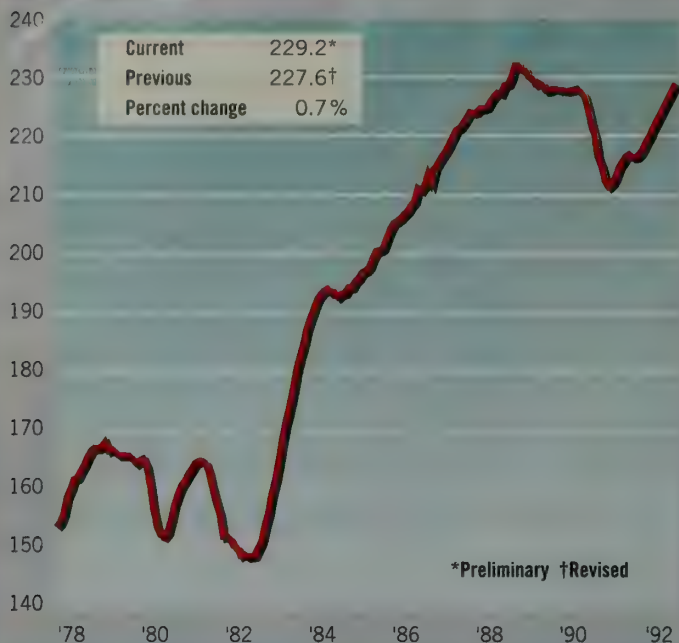
cial earnings, that's more than enough to offset oil imports of around \$42 billion.

Less than a decade ago the U.S.' current account deficit was \$150 billion a year and climbing relentlessly. But this year, after allowing for what are called "unilateral transfers" (pensions paid to Americans abroad, and transfers abroad by foreigners resident here), plus such items as direct government transfer payments, the Treasury estimates the current account deficit will be just \$35 billion or so—almost meaningless in a \$6 trillion economy.

THE FORBES INDEX

BY ROBERT ROSENSTEIN

The Forbes Index (1967=100)



A committee of the National Bureau of Economic Research recently declared that the recession was over in March 1991. Maybe so, but the expansion remains lethargic. The trailing 12-month total of housing starts (through November) was up 0.9% over October's trailing figure. November's wages and salaries were up 0.7% (before inflation) from October, while claims for unemployment benefits fell 1.4%. Bottom line: a 0.7% gain in the November Forbes Index, putting it back up to where it was in August 1989.

Other key rates

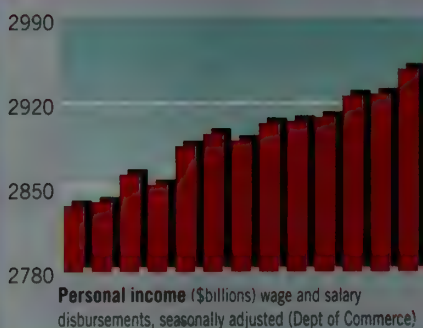
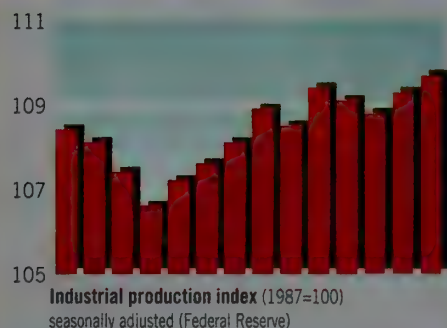
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.0%
Auto sales year to date vs 1991 ¹	Ward's Automotive	1.8%
Index of leading indicators Oct vs Sept	Dept of Commerce	0.4%
Trade balance 12 months ended Oct 1992	Dept of Commerce	-\$78bil
All-commodity producer price index Nov vs Oct ²	Dept of Labor	-0.3%
GDP 3rd quarter vs 2nd—annualized growth	Dept of Commerce	3.4%
M2 (3-month change)—annualized growth ³	Federal Reserve	3.7%

¹ U.S.-based manufacturers, excludes imports, as of 12/20/92. ² Wholesale goods. ³ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

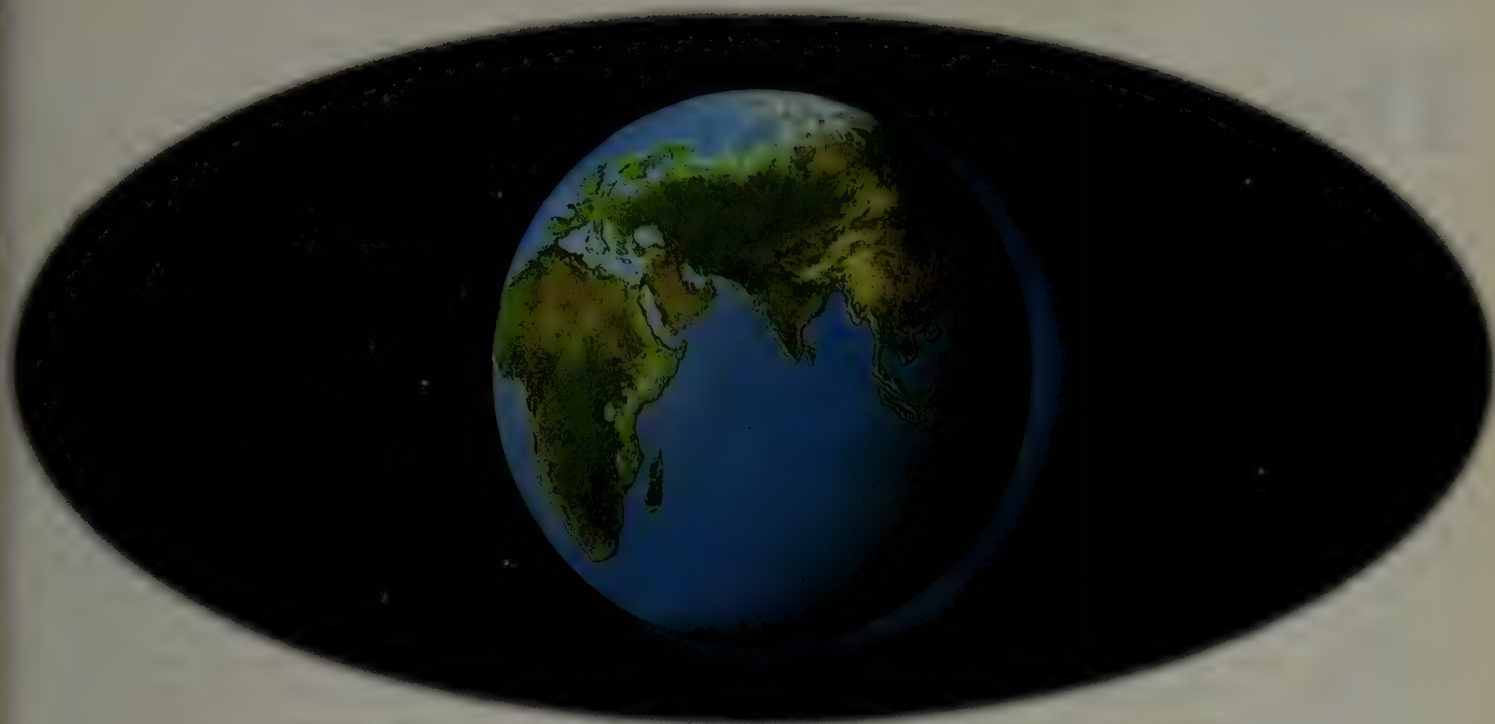
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



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Political sloganeering notwithstanding, U.S. manufacturing is thriving. Paradoxically, the loss of jobs is a sign of strength, not of weakness.

The myth of U.S. manufacturing's decline

By Jerry Flint

LISTENING TO THE political rhetoric during the recent presidential campaign, one could draw only one conclusion: The U.S. economy was fast losing its manufacturing base. "Shipping jobs overseas" was one of the most familiar noises emanating from candidates. The mass media obliged with terrifying accounts of declining U.S. industry and mass blue-collar layoffs.

There were apparently lots of votes in the "decline" slogan but almost no truth: The manufacturing sector of the U.S. economy is strong, getting stronger, world-competitive.

So what a good many pols were elected to fix actually isn't broken.

Were you brainwashed by the pols and the press? Look at the numbers yourself:

Output, things made, climbed 26%, close to a trillion dollars (in inflation-adjusted dollars) in 15 years. Pay and benefits in manufacturing, inflation-adjusted, held steady. Output per employee was up 37% in the period. Productivity, which had been growing slowly at just over 1% a year, spurted upwards over the past seven years to almost 3% a year on average.

But what made plausible to the voters and the media the charges that American manufacturing had weakened was this: The improved productivity—more output per person—enabled industry to operate with fewer workers. The employee numbers for manufacturing fell 6%, or 1.2 million, over the last four years—to the detriment of George Bush's reelection campaign.

These job losses, painful as they were, should be put in perspective. A

couple of New York University professors put it best:

"In the 18th century it took about 90% of the population to produce enough farm products to feed the nation poorly; today a mere 3% of the labor force produces unmanageable surpluses of farm products.

"In its turn, rapid growth of productivity in manufacturing is reducing the share of the labor force needed to meet demands for manufactured goods, and so is driving workers to the services."

Does this mean that sturdy steel- and autoworkers have been reduced to flipping hamburgers for a living? Not at all. The professors point out that the new jobs in the service industries have predominantly moved "to the burgeoning information industries, not to mere hamburger flipping and dishwashing."

The quotes are from a published report by Edward Wolff and William Baumol, NYU economists and productivity experts.

Many experts who have studied the subject and don't have an ax to grind agree with Wolff and Baumol. "Some of the things that may seem most worrisome—job losses, plant closings—are actually signs of health," according to Martin N. Baily of Brookings Institution. "A successful manufacturing sector will have high and growing productivity. It will also, as a corollary, experience unsettling turnover as less productive plants close down.

"When manufacturing is, in addition, participating actively in international trade, production and jobs will move around, and many jobs will be

lost. That is what is happening in U.S. manufacturing today," he wrote recently in the *Brookings Review*.

Where's the economy stronger? Not in California or New England, but in the Rust Belt, the industrial heartland, which runs ahead of the nation in recovery and growth. Why? Because manufacturing is strong.

Another myth is that American managers must yet learn the tricks of new production techniques; the reality is they've learned them. Go search for plants that haven't changed or are in the process. All those catchwords, *kaizen*, *keiretsu*, just-in-time inventory, statistical process control, lean production, continuous improvement, total quality management; they're old hat now.

The productivity figures leave no doubt that American managers have learned the new techniques and learned them well. The Japanese on their home islands are studying American techniques again, says David Ehlen, who heads Wilson Learning Corp., which operates in Japan, too. Ehlen says the Japanese are straining to integrate magic American words, like "innovation" and "globalism" into their own work environment.

Look at Bill O'Gara, president of a company in Fairfield, Ohio, about 20 miles from Cincinnati. He puts bulletproof armor and glass in cars. Eighteen months ago he changed over to a team production system. "We had too much overhead and at the same time we wanted to do some downsizing. The chain of communication went from me to the head of manufacturing, to the shop floor supervisors to the people actually producing the

vehicle. There was a lot lost from me to the shop floor."

He eliminated the highly paid supervisors and set up seven self-directed, cross-trained teams, led by a team leader. Everyone would do everything. Where did they get the ideas? From the books and magazines that spread the word across this country.

How did it work? "We had a bump in the road. What I found out is that the lack of skills in certain people, a trimmer who was supposed to be a welder one day and a glass installer the next, was much more than we could bear, and it caused frustration, too. So after four months, we changed to having one fully cross-trained team with the highest skills.

"The remainder of the factory we divided into self-guided work teams along function lines, welder with welders, glass installer with glass installers. We added a prebuild review, where team leaders get together to tell everyone what problems they see and what we can streamline. We did a lot more brain work up front before we set the car in the build cycle."

Fix, modify, improve, innovate. That's all very American—didn't the Japanese learn a lot of what they know from Americans in the first place? "It

works wonderfully," O'Gara says. "On some of the new models, we've dropped our labor hours by 42%. Workers don't hang their brains on the door when they come to work anymore." That message has been received across the country.

When foreigners search the world for productivity, cost and quality, it's the U.S.A. they see. These are driving factors behind BMW's decision to build a plant—not in Mexico, not in Korea—but in South Carolina. Yes, the Japanese destroyed the consumer electronics industry in the U.S., but they're producing here now to hold it: Sony near Pittsburgh, Matsushita Electric in Ohio, Toshiba in western New York, right in the old Rust Belt.

America can no longer compete, wailed the pols and press. Oh no?

Exports are a test of industrial prowess. If they are growing, it means your nation is competitive in price and quality. U.S. exports have been climbing fast, from \$168 billion in manufactured goods in 1985 to around \$370 billion in 1992. That's more than a doubling in less than a decade. One price for that progress has been that we take more goods from low-wage countries. How else can they afford to buy manufactured goods from the U.S.? Protectionists somehow assume that they can curb imports without reducing exports. Highly unlikely.

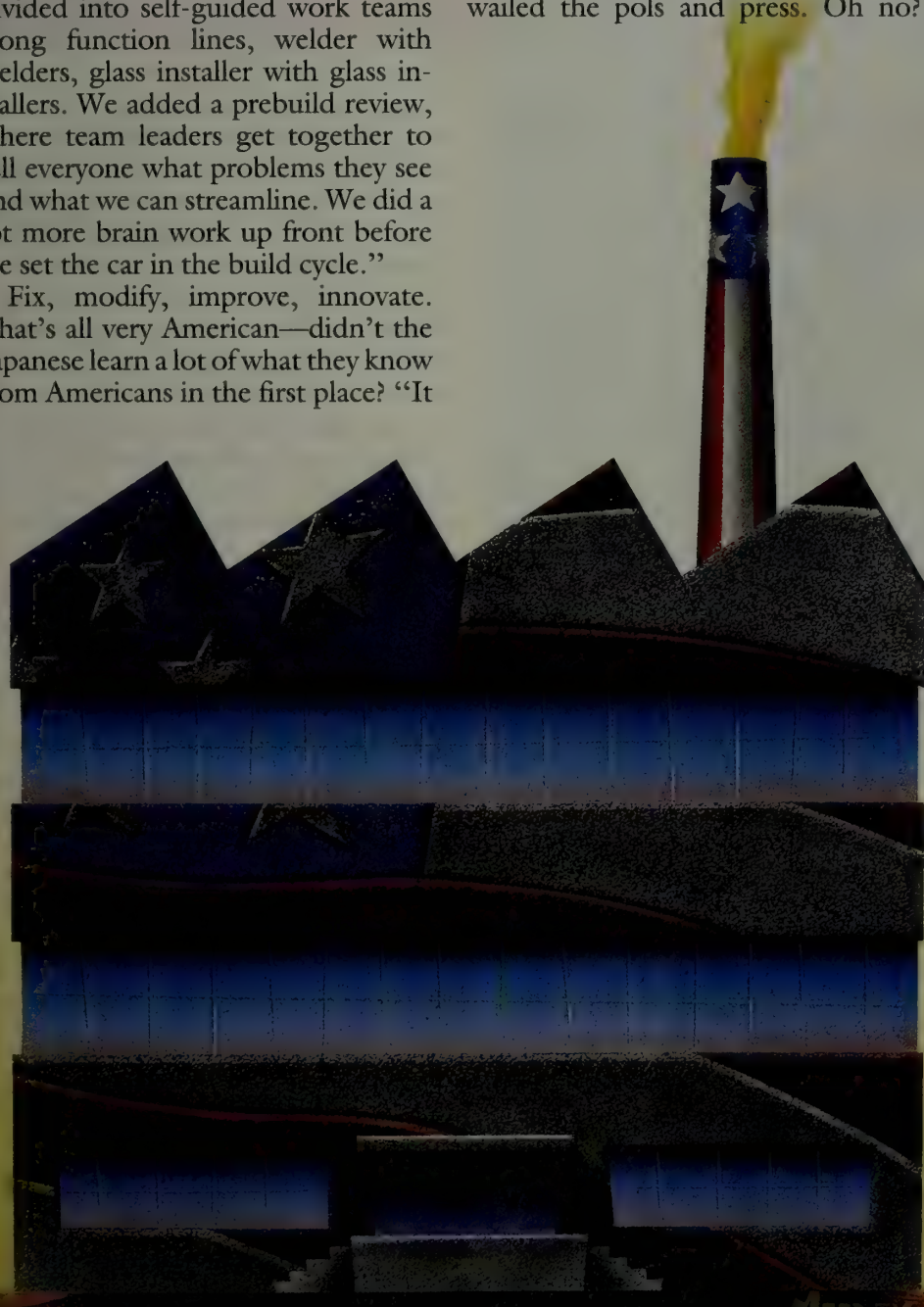
Sure, the low dollar is a big factor in the growth of U.S. exports. It's part of the swing: A decade ago everything seemed to work against U.S. firms; today everything works for them.

Detroit, which never emphasized exports, is changing. Chrysler is building right-hand-drive Jeeps for Japan, and General Motors is working with its European engineers so that its next minivan can be shipped in volume, say 50,000 a year, \$750 million worth, to Europe. Give the Japanese a cheer for showing the way. Honda has exported over 100,000 cars from here since it set up its U.S. plants.

Problems? Sure. "The rate of profit is lower. There's more competition. The GMs and US Steels used to sit back with cigars and rake in the money," says Baily of Brookings. These setbacks make the papers and get echoed on the tube by the carefully coiffed newsreaders. The good news rarely rates a line.

Fifty years ago the mechanical cotton picker pushed 5 million people out of rural isolation in the South, mostly into the big cities of the North. Those cities are still struggling with the problems, but who would return to the days of stoop labor picking cotton? Industrial progress creates problems as well as solves problems. Because change is painful doesn't mean you try to stop it.

Baily of Brookings has a productivity theory that may have resonated among voters and viewers: "Look at American literature. Look at the movies. Remember all those about people losing their farms? It's painful for people. They regret the passing of a way of life."



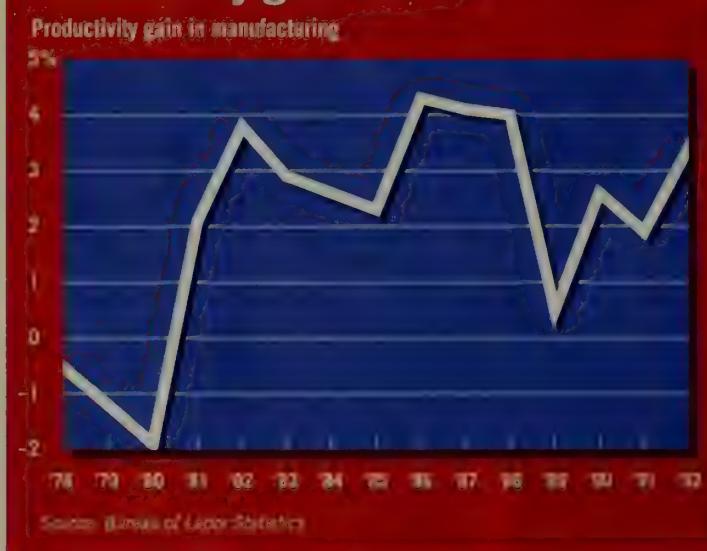
Jobs drop, output climbs ...



And pay holds steady



Productivity gains do it



Factory jobs have declined, but productivity and output have jumped, while pay has held steady. These are signs of healthy manufacturing, not a sick sector.

But it's the productivity gains all this produces that allow companies and the nation to afford safety nets for those who lose jobs. Remember when the U.S.S.R. boasted of full employment? Who would call that healthy?

But nostalgia notwithstanding, factories aren't where the new jobs are. In the 1980s our economy, with less, not more, regulation by the government, added 20 million more workers—yet witnessed a drop in manufacturing employment. More than half of the increase came from the service economy.

So what's the answer to the troublesome job numbers? Certainly not more costly government programs: Adam Smith's invisible hand is better at creating real jobs than Harvard professors are. Unfettered entrepreneurs give creativity and energy to an economy; government rules and regulations sap that vitality. It won't be easy, but what is?

American business has shown that it can adapt to a world where we are no longer economically supreme. The best government program would be one that keeps reminding us of the new reality, defined for FORBES recently by Glen Hiner, chairman of Owens-Corning Fiberglas: "We don't have a corner in brains. We have to get to the lowest cost, or somebody else will." Higher taxes, more regulation and social engineering are all enemies of low-cost production. ■

They recall fondly a society where an immigrant off the boat, or an unskilled coal digger from Kentucky, or an illiterate cotton picker from Mississippi could come to Detroit or Chicago or Pittsburgh and get a good factory job, \$30,000 a year now, \$1,800 a month pensions, fully paid health care. Wasn't that good? Yes, but it was only for a brief moment in history. Well into the 1930s steel mills were sweaty, dangerous places that paid low wages. High-wage, high-labor-content manufacturing got its start only with Henry Ford in the World War I era. It worked only when the U.S. dominated world manufacturing, but not in today's era of global

competition. You can pay high manufacturing wages today, but only with the highest productivity and automation—which is merely another term for reducing head counts.

There are new jobs, but somewhere else than the old ones and requiring different skills: minimills in the rural countryside, car assembly plants in Tennessee and Kentucky. The foreign factory managers who moved here don't hire anyone who shows up. They put them through rigorous tests to get the best for their money. When the big U.S. manufacturers hire again, it's likely they will be more particular, too. And many of today's unskilled factory jobs may leave for Mexico.

On the theory that the best defense against takeover is a high stock price and growing profits, Dan Nelson has set about to make West One impregnable.

No more white telephones

By John H. Taylor

ONCE, WHEN HE worried about his West One Bancorp becoming a takeover target, Chairman Daniel R. Nelson got some smart advice from a board member, former Albertson's Chairman Warren McCain. "Warren told me the best defense is to make a lot of money, plant a lot of flags and not to worry," says Nelson. "And that's what we're doing."

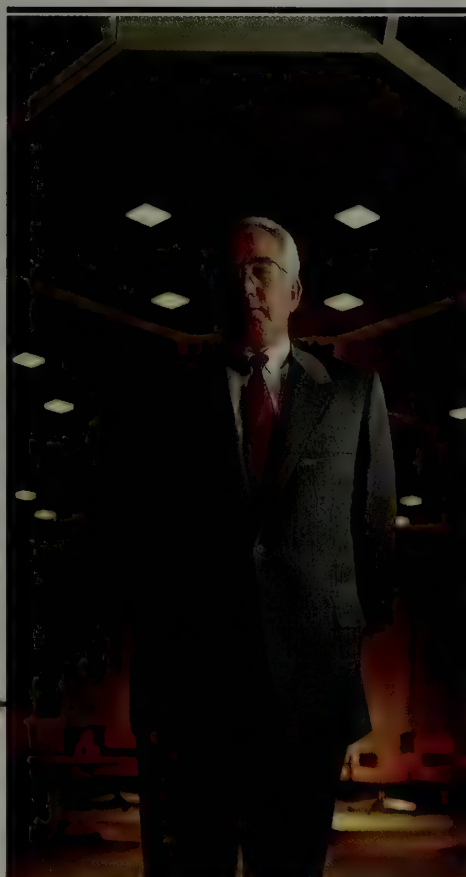
Nelson, 55, has planted plenty of flags and has made plenty of money for his \$6.8 billion (assets) bank holding company based in Boise, Idaho. Its banner now flies in four of the country's fastest-growing states—Idaho, Oregon, Washington and Utah. West One earns around 1.12% on assets, a handsome premium over the industry average of 0.97%.

Expansion-minded banks like Columbus, Ohio's Banc One, Minneapolis' Norwest and Portland, Ore.'s U.S. Bancorp all would dearly love to add West One to their growing collection of banks.

Everything is for sale at a price these days. What price would it take to buy West One? When asked about rumors that West One has received offers of twice its book value—or \$60 a share—Nelson answers only obliquely: "Our stock is trading at \$50 a share now, and it is clear to me that we can get it to \$62 or \$65 just doing what we're doing."

Nelson has been doing some quiet expanding of his own. Last September he bought 38 Security Pacific branches in Washington State that Bank of America had to sell as part of its acquisition of Security Pacific. Nelson was familiar with most of those branches because he had run them

Robbie McLaren



West One Chairman Daniel R. Nelson
Put up more flags.

himself before joining West One in 1984. Nelson got the branches on the cheap, paying a premium of about \$20 million to acquire \$1.2 billion in deposits.

Nelson was appalled at what he found when he made unannounced visits to many of the branches in early 1992: "Security Pacific had cut their operations to the bare bones," Nelson recalls. "I went into one and said I wanted information about how to get a loan. The branch manager pointed

me to a white phone. I have no idea who was on the other end of the line or where they were."

Nelson has since replaced many of the white telephones with real human beings, adding 30 loan officers and planning to hire another 30 lenders. He has also added training programs.

Those white telephones were a symbol of a highly centralized lending operation, where branch managers had almost no decision making powers. Nelson has scrapped that along with some of the white phones.

Now most West One branch managers make loan decisions or waive customers' fees without getting approval from the head office.

Do the branch managers make more bad loans than the old, centralized system? Apparently not. At the end of September, West One's ratio of nonperforming assets to total assets was 0.51%, less than one-fifth the industry average.

When mistakes do get made, Nelson doesn't dither. In the late 1980s West One grew too fast in Utah; several large loans went bad in 1991. Nelson quickly replaced the top management and sent one of his premier credit officers, Don I. Sauer, to take over the Utah bank.

Today the Utah bank is profitable, earning \$2.9 million on assets of about \$650 million in the first three quarters of 1992.

And so Nelson continues to take Warren McCain's advice to plant flags and make money. During the first nine months of 1992 West One earned \$46 million (\$2.95 a share), compared with \$29 million (or \$2.05 a share) during the same period of 1991. Nelson is confident enough about the bank's performance that in December he raised the dividend from an annual rate of \$1.04 a share to \$1.24.

Nelson says that his five-year goal is to have the first-, second- or third-largest bank in every small town along the 300-mile stretch of Interstate 5 from Portland, Ore. to the Canadian border.

In accomplishing all this, Nelson is serving notice on would-be acquirers. We can do nicely on our own, thank you, he is saying, but if you want to acquire us, we're going to come dear.

What happens to Time Warner now that its creator is dead? Two savvy analysts gaze into the future.

Life without Ross

By Robert Lenzner

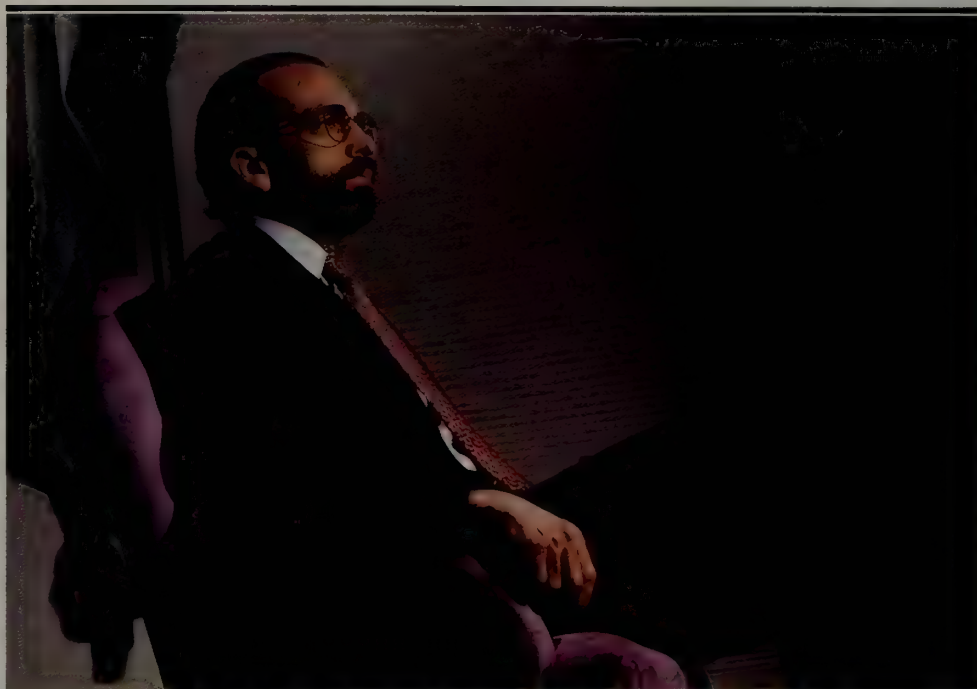
THE KING is dead, long live. . . . Who? What? With Steve Ross' death from cancer late last month, the future of Time Warner Inc., the world's largest entertainment conglomerate, is up in the air.

All this matters mightily to investors, who saw their Time Inc. shares climb to about 46 (adjusted for a 4-for-1 split last September) and then fall to 16½ after Steve Ross won his battle to acquire the company in 1990. The stock has since regained nearly half the lost ground. But with Ross gone, control of the company and its direction is up for grabs.

We asked two of Wall Street's savviest media analysts to polish up their crystal balls for us on Time Warner's future. They are Jessica Reif of Oppenheimer & Co., Inc. and Richard Simon of Goldman, Sachs & Co. Both are highly bullish on the post-Ross Time Warner.

Reif: Gerald Levin [Ross' handpicked successor] is one of the most underrated managers in the nation. Still, it's hard to tell if he is in control, because of the board changes and because of the intense politicking at the company. The most positive thing you can say is that outside of Disney, this is the most stable management team in the entertainment industry.

Simon: Time Warner shares sell at 8.5 times cash flow—a discount to the price paid by its foreign strategic partners, Toshiba Corp. and C. Itoh & Co., Ltd. (Itochu International Inc. since October), which bought their minority interests in Time Warner Entertainment at 12 to 13 times cash flow. So the public today can get in



Richard Simon, Goldman, Sachs vice president and entertainment analyst

"[Since Steve Ross' death] many institutions could be more receptive to the stock."

cheaper than the big investors did.

The company has the best combination of cable networks, movie studio, music, cable programming and magazines in the world.

Many institutional investors have been uncomfortable with the stock because of the issues of Steve Ross' compensation and/or his managerial style. [Since Ross' death] many institutions that were not open to it could be more receptive to the stock.

FORBES: There's still all that debt that Ross piled on when he did the merger between Time and Warner: \$9.2 billion long-term debt, \$6.4 billion in preferred.

Reif: I think 1993 will be the year of

more deleveraging, and increasing value for stockholders.

But aren't Time Warner's options limited? You say the stock is selling at a modest cash flow multiple; selling new stock would dilute current shareholders and perhaps lead to mutiny.

Reif: The company assures us it will not sell more stock. I believe they will monetize other assets. They might sell some or all of their 21% interest in Turner Broadcasting System, Inc.,

which is worth over \$1 billion. Also the company could bring other partners into Time Warner Entertainment, a limited partnership that includes the film entertainment and cable divisions and HBO. Time Warner still owns 87.5% of TWE, after selling 12.5% to Toshiba and Itochu.

In other words, sell off pieces of pieces at higher prices than you'd get selling a piece of the whole.

Reif: I'll give you an interesting example. On Dec. 7 Time Warner raised close to \$500 million by means of a zero coupon note convertible into 12 million shares of Hasbro, Inc., a toy company stock owned by Time Warner. It used the proceeds in part

to pay down more expensive debt.

There will be other balance sheet improvements. For example, on or after Jan. 10, 1993, the company can call the \$3.2 billion Series D convertible preferred shares [at an initial price of \$53.85]. I believe they'll do this. Since it pays an 11% stock dividend, and if it can be refinanced with straight bank debt at 8%, the saving would be \$100 million in interest costs. Besides, interest costs on the borrowings would be tax-deductible, while dividends on the preferred stock are not.

By the end of the decade I can see a video shopping mall develop. Time Warner could build massive storage facilities where, say, they could store digitally 1,000 movies that would be connected to a variety of cable systems. Subscribers would access this inventory of movies whenever they wanted, from their homes, on a 24-hour basis. Eventually, you will be able to choose from a library of musical videos and then press a button.

This will be a way to merchandise Time Warner's music groups, like Phil Collins, Madonna or Metallica. Per-

Time Warner recently said that the company will become a full-service network by installing fiber-optic cables. The use of fiber dramatically increases the capacity of a cable system from fewer than 75 channels to 150 channels or more. Another technological improvement in the works is compression, which allows more video product to travel through the fiber cable system. This has the effect of multiplying the number of channels available to 500 or more.

Simon: Americans spent \$3 billion on films in 1980 and \$21 billion by 1990. This could grow when the 150 channels on Time Warner's Quantum service now available in the New York City borough of Queens become 500 channels in the next two years. They will be able to offer 30 movies a night starting every 15 minutes. Anyone choosing a Warner or HBO film in Queens, a Time Warner cable franchise, will pay about \$3.95 to Time Warner. A person choosing a Fox film will pay \$3.95, with about \$1.98 going to Fox and the rest going to Time Warner as a distribution fee.

Neither of you mentions magazines. Time Warner is one of the world's biggest in that.

Reif: Magazine publishing was incredibly weak for the industry all year long. But it will pick up in 1993 thanks to price increases on advertising rates that look like they will go through.

For Time Warner, the magazines would be the easiest to sell. On the other hand, the division is increasing titles by taking on management of American Express Publishing Corp.'s *Travel & Leisure* and *Food & Wine*. So my guess is, no, they won't sell the magazines.

How do earnings look?

Reif: I believe Time Warner will have an operating cash flow of around \$2.8 billion in 1993, which would give the stock (recently at 29¼) a value today of 37½ at ten times cash flow. The company should start to make money sometime in 1993, though for the full year I am forecasting a loss per share of 45 cents.



Jessica Reif, Oppenheimer & Co. entertainment analyst
"It's hard to tell if [Gerald Levin] is in control."

What do you see in your crystal balls?

Simon: It would be interesting to see a technological alliance between Time Warner and AT&T, which would like to enter into a partnership with a cable company. It could be cheaper to make your long distance telephone calls over cable than by using local telephone companies. Moreover, it would benefit the cable business by providing another revenue stream in access fees. I think they [AT&T and Time Warner] have been talking about this arrangement.

We call the evolution of this industry a *communacopia*—combination of communications and cornucopia. Let me explain.

haps books and magazines as well.

Catalog shopping also could be done from the home on cable. There could be an L.L. Bean channel that allows you to flip through the L.L. Bean products and order over the cable system. Time Warner could get a piece of the action. This would apply to a gardening products channel or even a *Field & Stream* channel for hunters and fishermen, or whatever.

So the TV set obsoletes the mall. That means access to the screen is the key to the future of retailing.

Reif: With 6.7 million subscribers, Time Warner is the nation's second-largest cable TV company. It owns systems in 7 of the 20 largest markets.

It is fashionable for politicians and pundits to mourn the decline of American economic competitiveness. Smart Europeans have a different view of the situation.

Patently absurd

By Richard C. Morais

WHILE AMERICANS have been trembling with existential angst these last few years, some thoughtful Europeans have been preparing themselves against a massive industrial revival in the U.S.

Among them is Konrad Faust, a researcher at the IFO Institut für Wirtschaftsforschung, a prestigious think tank on the banks of Munich's Isar River. Years ago Faust began studying international patent registrations. The results, he says, have astounded him.

In 1987 the U.S. share of international patent registrations dropped to a humiliating 25.16%. For the first time the U.S. was bumped out of the number one spot by the energetic Japanese, who registered 25.88% of the international patents that year (*see chart*). Americans began whipping themselves like medieval flagellanti.

But there must have been some real penitenti among all the flagellanti. For it is now clear that innovation is neither dead nor dying in the U.S. In 1990, the latest available year, the U.S. was responsible for 30.1% of the international patent registrations. That compared with Japan's 24.2% and Germany's faltering 16.5%.

The trend is clearly back up. Americans register some 25,000 inventions a year, 80% more than in 1970. "It's a very real revival," says Faust. "The trend appears to be continuing in 1991 and 1992."

Patent registrations are an important leading indicator but require careful analysis. It turns out that the

vast number of Japanese patents of the 1980s weren't quite as impressive as they seemed at first blush. "You have to look at the quality as well as quantity," says Karlheinz Kaske, the just retired chairman of Siemens AG and the wise old man of the German electronics industry. "A lot of the

"We are standing still while the Japanese and U.S. move ahead. That means in real terms Germany is falling behind." Fact: In the last decade Germany's share of patents has dropped from 21.4% to 16.5%.

Karlheinz Kaske is even more emphatic. He believes a golden age of American innovation is around the corner. Military cutbacks will unleash tremendous potential, he says, pouring into the private sector a wave of scientists, technologies and capital.

"At the end of the Vietnam War I witnessed a cutback in military spending," he says. "It helped Silicon Valley spring out of the ground. Scientists and venture capital were everywhere. It will happen again. Contrary to Europe, U.S. engineers are mobile and adaptable; contrary to the former U.S.S.R., the U.S. has the framework to manage this conversion. The shift will take time, but the U.S. will surely be the locomotive of the 1990s."

A German business publication recently commissioned the Boston Consulting Group to do an exhaustive report comparing the long-term prospects of Japan, Germany and the U.S. The study confounded the prophets of U.S. economic decline. It said, in effect, that while Japan and Germany had left the Stone Age and were into the car and electronic age, the U.S. was ahead, opening up a new era of software and leisure industries.

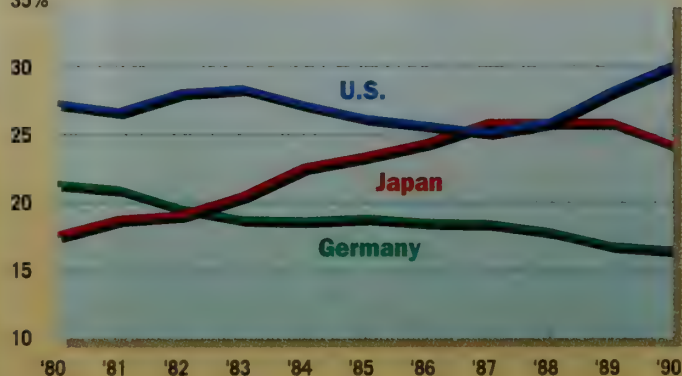
"In the field of genetic engineering, we are seeing hundreds of small U.S. companies registering patents," says Faust. "It is a pattern similar to the early days of Silicon Valley."

Adds Kaske: "The SDI technology, for example, is in large part information technology: software, automation, electronics. I see that leading to tremendous growth in telecommunications, navigation, HDTV."

Moral: U.S. sentiment, like the stock market, tends to overshoot. From reveling in economic euphoria, the U.S. became enveloped in economic gloom. The euphoria has dissipated. So will the gloom.

Comeback kids

Percent of international patents applications



Source: IFO Institut für Wirtschaftsforschung

According to a German think tank, the U.S. share of inventions is on the rise, while Japan and Germany are registering declines.

Japanese patents were peanuts, because the companies had incentive programs tied to the amount of patents produced."

Patent registrations, of course, take years to translate into real growth. This delay creates a field day for gloomsters like Lester C. Thurow of MIT, the Art Garfunkel of economic forecasting. Calling for the U.S. government "to do something," Thurow predicts Europe will be the economic powerhouse of the 21st century.

Faust wishes that were so, but he knows it isn't. "The patent registrations show that the big losers are Germany and Europe," says Faust.

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IBM LASERPRINTERS. PAGES AHEAD.

The U.S. Food & Drug Administration has all but stopped approving new medical devices—much to the benefit, for now, of foreigners.

Block that innovation!

By Laura Jereski

IN OVER TWO DECADES as a successful builder of innovative medical-device-making companies, Manuel Villafana has overcome many a scientific and financial hurdle. But nothing prepared him to deal with the faceless government bureaucracy that is the U.S. Food & Drug Administration.

Villafana, now 52, helped launch Cardiac Pacemakers, now a subsidiary of Eli Lilly. Later he cofounded St. Jude Medical, a maker of high-tech valves used in open-heart surgery. Since 1990 Villafana has run ATS Medical, a Minneapolis-based startup that has developed a heart valve Villafana hopes will one day supplant St. Jude Medical's valve, now the industry standard.

But that day may be a long time coming. Embarrassed by much-publicized problems with silicon gel breast implants and heart valves, the FDA has almost stopped approving new medical devices. The FDA's approvals of new devices have sunk from 47 two years ago to 12 in the fiscal year that ended last September. Officially the FDA attempts to complete reviews of new medical devices and give a thumbs up or down within 180 days, but in some cases the review process has stretched to two years or more. Contrast this slowdown to the growth of the FDA's total staff—up from 7,600 in 1990 to 8,700 now—and to its budget, up from \$598

million to \$760 million.

How do startups like ATS survive if the bureaucrats keep their products off the market? The better-capitalized ones do so in part by looking overseas. ATS' new heart valve is almost completely assembled in Minneapolis and then shipped to Scotland where the last piece, a sewing cuff around the valve, is attached. From Scotland it is sold into France, Switzerland, Germany and five other foreign countries. Foreign sales brought in \$225,000 through the first three quarters of last year, not much but enough to help the company raise some \$27 million in a private placement to fund extended clinical trials in the U.S. Even so, says Villafana, ATS' valve probably

won't be available to American patients until 1997.

Or consider Waltham, Mass.-based Summit Technology. In 1988 Summit developed a laser technique for the removal of corneal scars; the laser procedure could substitute for risky corneal transplant surgery for as many as 20,000 U.S. patients annually. Summit has been trying for a year to win FDA approval for its procedure. But the FDA's ophthalmology panel, which usually meets at least four times a year, met only once last year, and so didn't even consider Summit's clinical results supporting its request for approval.

Fortunately, Summit's laser device is used in 35 countries for refractive surgery to improve vision by changing the shape of the cornea. That foreign business accounted for virtually all of Summit's \$30 million in sales last year. "We are lucky," says Summit President David Muller. "If it weren't for the refractive surgery overseas, we'd be out of business."

Says Daniel Lemaitre, a medical devices company analyst at Cowen & Co.: "There isn't a company that isn't thinking of moving its research and development, and its manufacturing, overseas."

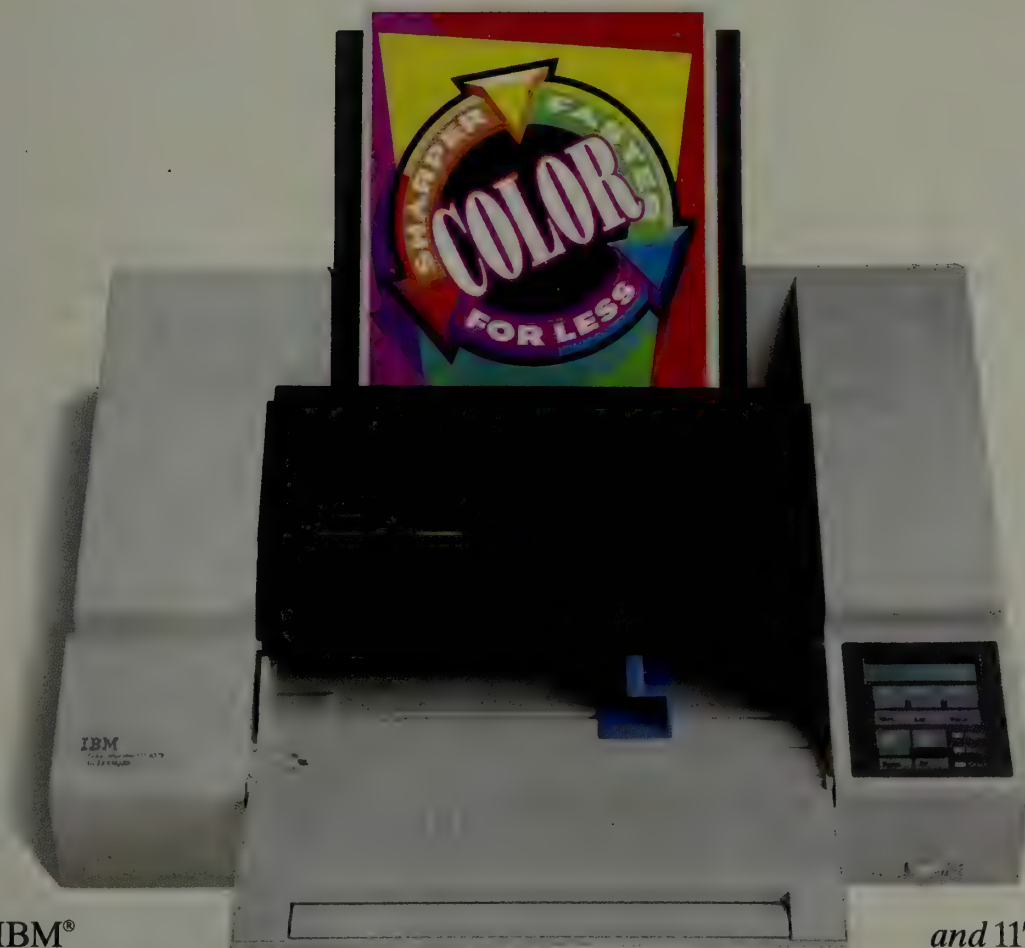
The FDA's approvals slowdown—in concert,

probably, with uncertainty as to what future U.S. health insurance policies will cover—has begun to drain venture capital away from medical device companies. Walter Channing of CW Group, one of the largest investors in medical innovations, says that ten years ago 40% of his capital would have been invested in medical device companies. Today only 20% of his funds are so invested.

Warns Robert Daly of Boston's TA Associates, a big venture firm: "The new regulations and delays mean adding \$10 million to \$20 million to a company's budget, and several years until the device gets to market. At that rate, most [venture] deals don't make sense." And when medical innovation deals suffer, everyone does.



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Here's how an obscure Washington office managed to keep the IRS from tormenting some innocent taxpayers.

No fishing

NOT ALL ENCOUNTERS between taxpayers and the Internal Revenue Service end badly.

In October Robert Long—who is president of an East Coast-based trucking firm and is himself a CPA—got a letter from the IRS that left him aghast. In the letter, T.R. Tertell, a revenue officer and examiner in the Chicago district, announced a “survey” of the trucking industry’s use of independent contractors. Tertell wanted to know, among other things, the number of employees who had received forms W-2 or 1099 or both for each year the firm had been in business. And the IRS wanted the information in 15 days.

The survey seemed to be part of the IRS campaign against businesses that disguise virtually full-time employees as “independent contractors” to avoid Social Security and other taxes. But, since the trucking firm was founded in 1936, complying with the IRS survey meant gathering and cross-checking tens of thousands of forms, many of which no longer exist. Robert Long says it would have taken the comptroller and an assistant several weeks just to see what paperwork could be collected. “In truth, the request couldn’t be complied with, but I was prepared to make some sort of effort, because the letter came on IRS letterhead and looked very official,” he adds.

As it turned out, he didn’t have to, thanks to a little-known law administered by an obscure federal office. The law that rode to Long’s rescue is the Paperwork Reduction Act of 1980. It is administered by the Office of Information & Regulatory Affairs, a 60-person unit of the Office of Management & Budget. Staffers there confirmed that the IRS survey violated the law, and the IRS quickly rescinded it.

The law specifies that any time a government survey goes to ten or more taxpayers, it must be cleared by OMB. There staffers decide whether

the information request imposes too great a burden on the recipients. If the agency clears a survey, it also assigns a control number and expiration date that must appear on each copy of the document.

It was the absence of such a clearance number that tipped off Kenneth Simonson of the American Trucking Association that something—besides common sense—was amiss with the survey Long received. Simonson called in the OMB watchdogs. “Evidently the agent who sent out the requests was not aware of the rules,” says an IRS official. She adds that since then, field agents have received reminders explaining the Paperwork Reduction Act and how it works.

Alas, the Paperwork Reduction Act has its limits. The IRS has for years cleared all its tax forms with OMB, so don’t ask the agency to protect you

from the horrible tedium and frustration of filing returns. Nor does the law apply in an audit. Still, it’s nice to know that it forbids some fishing expeditions.

Don’t take comfort

To all those who are reviewing or reworking wills that have so-called bypass or credit shelter trusts, a warning: Beware of the words “comfort” and “enjoyment.” They can cost you \$360,000.

The situation arises this way. The federal gift and estate tax allows each taxpayer an unlimited exemption for property left to a spouse who is a U.S. citizen. There is also a \$600,000 exemption for property left to other heirs. But married couples lose the value of one of the \$600,000 exemptions if each spouse leaves everything to the other. So wealthy couples often



Chris B. Sullivan

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write wills in which husband and wife each leave at least \$600,000 to the next generation.

But what about couples who are prosperous but not extremely wealthy? They, too, want to leave up to \$1.2 million tax free to the next generation. But they want maximum flexibility should one spouse outlive the other by many years and need to dip into these assets.

Solution: Each spouse writes a will putting \$600,000 of assets into a so-called bypass or credit shelter trust. When the first spouse dies, \$600,000

What if your lawyer unwittingly inserts a little too much flexibility into the trust? A disaster.

of assets goes into a trust whose income goes to the second spouse for life. When the second spouse dies, the principal in the trust goes to the other heirs. To provide flexibility, however, the trusts often give the surviving spouse power to get at the trust's principal if the money is going to be used for reasons of "maintenance, education, support or health." Estate tax experts refer to this as MESH.

The trap comes if an unwitting lawyer inserts a little too much flexibility into the trust, giving the survivor access to principal for his or her own "comfort" or "enjoyment." According to Larry Elkin, a CPA based in Hastings-on-Hudson, N.Y., many lawyers make that mistake. But a recent case, *Vissering v. Commissioner*, makes it clear that the IRS can treat such a trust as an outright bequest to the surviving spouse. In that case the principal gets thrown into the estate of the second spouse and taxed at rates as high as 60%. Suddenly, the \$600,000 exemption disappears, and the survivor could wind up owing tax of up to \$360,000.

Elkin notes that there's no need to go beyond MESH. "The MESH standard allows for great latitude," he says. "It could allow invasion of the principal for a trip to Europe, say, if that's what the spouse was used to." Moral: Review your bypass trusts.

-L.S. ■

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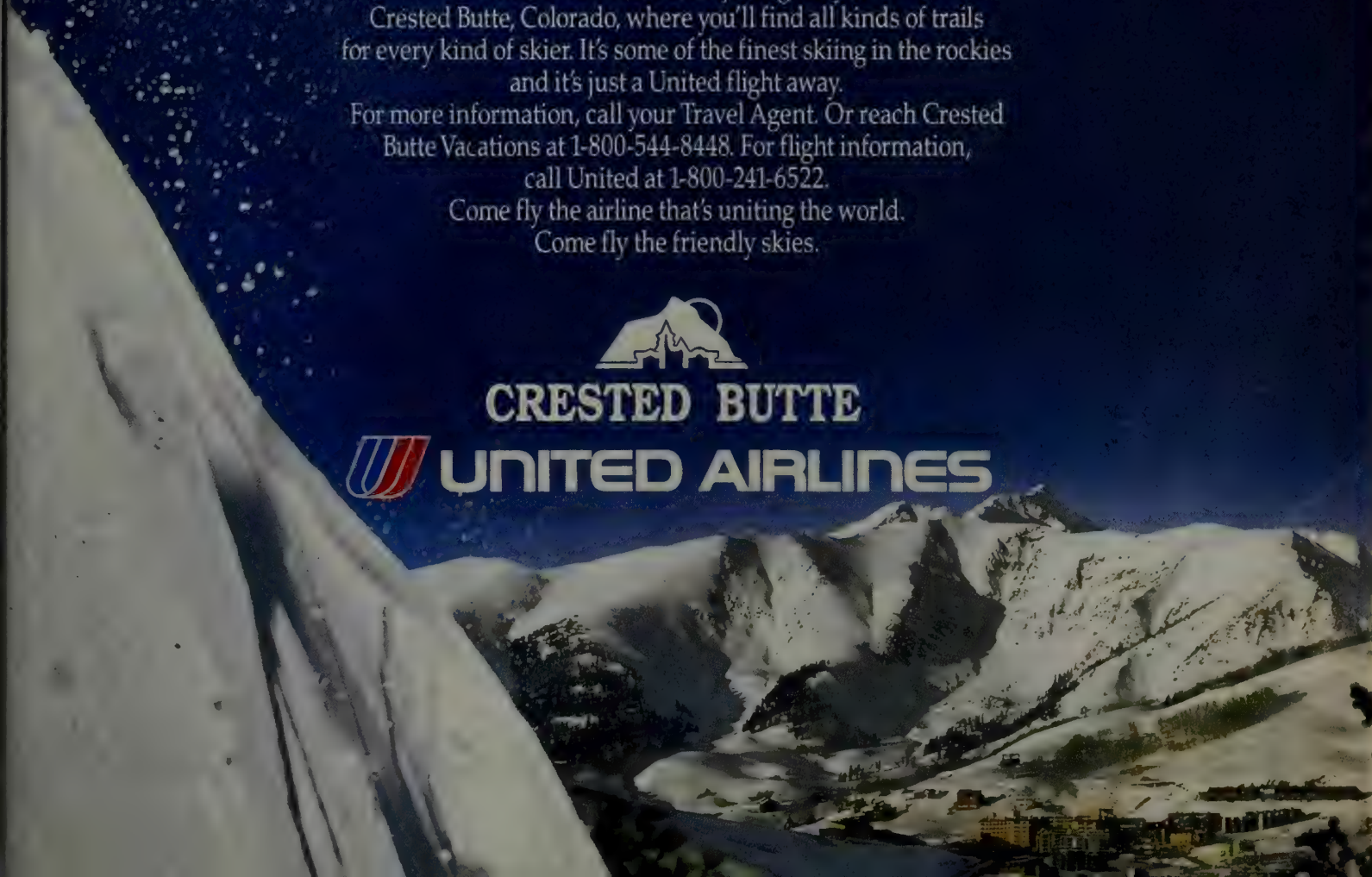
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If you want to see one area where the Japanese economy is still vibrant, check out the videogames your kids and grandkids are playing. But Japanese domination of the business is by no means assured.

“That is where the money is”

By Gale Eisenstodt

IT'S ALL VERY un-Japanese at Osaka-based Capcom Co.'s software development center. Casually dressed programmers and designers hunch in front of computer screens, surrounded by mounds of stuffed animals and piles of comic books. The average age of these Japanese workers is around 24. The top designer is 25 and earns around \$120,000 a year. Capcom's founder, Kenzo Tsujimoto, and his family are near billionaires from their holdings of the stock.

Welcome to the wild world of videogames, a business that scarcely existed 15 years ago, but today the software alone is worth \$7 billion worldwide. Nintendo Co. and Sega Enterprises are, of course, household names in the U.S.—at least they are in any household where kids and grandkids are into videogames. And Nintendo's Shigeru Miyamoto is still the world's top game software producer. His brilliant Super Mario Brothers series has sold over 85 million copies in eight versions worldwide.

Less well known are the scores of Japanese upstart producers of videogame software, among them fast-growing Capcom. Its latest sensational hit—Street Fighter II, originally created for the arcade market—was released this summer for Nintendo's 16-bit system. Capcom has already shipped over 1.5 million copies of Street Fighter II to the U.S., and another 3.5 million copies to Europe and Japan. Capcom officials predict the nine-year-old company's revenues for the fiscal year ending in

March 1993 will hit \$570 million, 60% up on the year before. Earnings will increase by 80%, to around \$44 million.

A public company since 1990, Capcom's shares recently traded at \$75. That values Capcom at \$1.3 billion.

Capcom and other videogame programmers represent a sharp break with traditional Japanese ways of doing business. At the software houses, individual ability is prized. In their development divisions, many of the companies have abandoned the conventional Japanese management practice of compensating and promoting employees based on seniority, and assuming their employees will remain with them for a lifetime. Headhunting is rife. “We reward performance,” says Capcom Director Akio Sakai. “If someone is good, we don't care if they have a high school degree or a doctorate.”

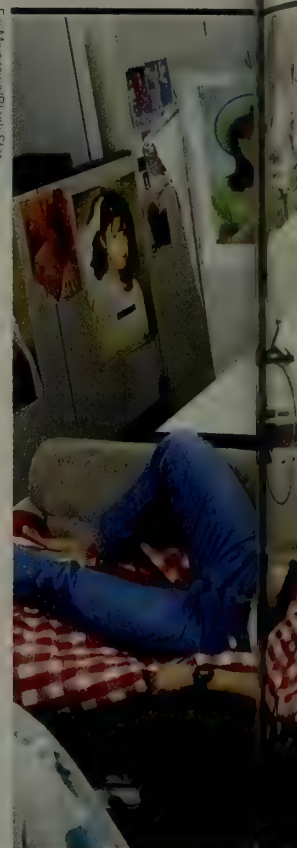
One of the leading figures in the business isn't even Japanese. Henk Rogers, 38, who has lived in Japan for 16 years, bought the worldwide videogame rights for Tetris, a puzzle game originally developed in the Soviet Union.

In 1988 Rogers published Tetris for Nintendo's 8-bit machine and one year later licensed it to Nintendo for use on the Gameboy platform. Over 25 million copies of Tetris have been sold worldwide.

Thus Tetris migrated from Russia to the world of videogames via Japan. Videogames frequently transcend frontiers. Capcom does around half

Programmers at Telenet Japan
Only mavericks need apply.

Eiji Miyazawa/Black Star



its business overseas. It's much the same story at Konami Co. (\$465 million in fiscal 1992 sales), best known for its Teenage Mutant Ninja Turtles software, and Tecmo, which specializes in sports games. Tecmo's December offering of 620,000 shares was oversubscribed by 15 times. In a down market, \$117 million (sales) Tecmo is valued at \$256 million.

Mavericks flourish in the videogame business because it is a field that requires brains and a willingness to gamble rather than big capital.

Koichi Nakamura developed the program for the popular Dragon Quest game series for Nintendo players and is now, at 28, president of Chun Soft, a company he founded while in college. He explains why ambitious young people are attracted to the business: “Top programmers go to the videogame business because that is where the money is.” The money is there because a single hit game that appeals to children worldwide can easily generate \$100 million in revenues.

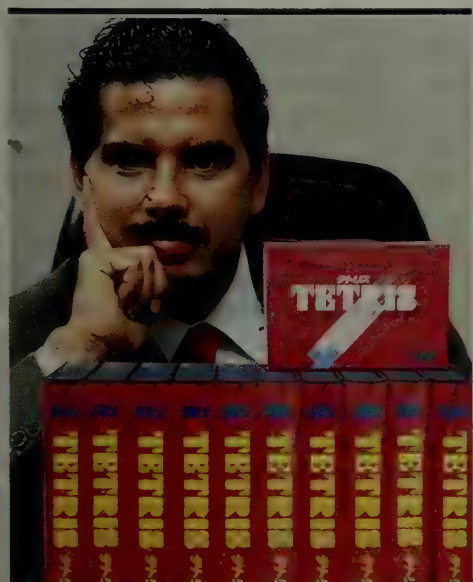
It's a business of big risks and big rewards. Nintendo manufactures the game cartridges for the software houses and charges them a licensing fee for each game sold. The software houses shoulder all sales expenses and



RIGHT:
Capcom's Street
Fighter II videogame
**"We reward
performance."**



BELOW:
The Tetris game's
Henk Rogers
**Videogames fre-
quently transcend
frontiers.**



game developers produce video-games when Nintendo was taking off in the mid-Eighties? Because the Americans feared Nintendo would flame out as Atari had in the early Eighties. But by the time they realized that Nintendo had staying power, Japanese outfits—with Nintendo and Sega leading the way—dominated the business, today publishing more than 50% of all game software.

That dominance is by no means secure. A few U.S. outfits are currently coming on strong. A prime example is \$175 million (sales) Electronic Arts of San Mateo, Calif.; a booming business in 16-bit games pushed sales up by 68% for the six months ended in September. Electronic Arts got its break when Sega entered the market. Nintendo discouraged Japanese software houses from producing for Sega, so Sega courted U.S. companies like Electronic Arts on favorable terms.

Electronic Arts recently teamed up with Japan's JVC to open a sales and game development office in Tokyo. Electronic Arts is also working with Matsushita and Time Warner on new, advanced hardware for entertainment and education.

New technology is creating further opportunities for U.S. software companies. Sega recently launched a compact disc player as an add-on to its 16-bit system. Compact discs can store 500 times more information than cartridges can. A few Japanese firms, including Tokyo-based Telenet Japan, are waging their future on software development for CDs.

But these gadgets will require software that will put a premium on the kind of programming used for PC software and on moviemaking expertise. These are areas in which the U.S. is strong and Japan is weak. To counter this weakness, Sega has set up a multimedia studio in Redwood City, Calif. Sony, which bought Columbia Pictures in 1989, is also making CD games in the U.S.

The multibillion-dollar action in this quintessentially late-20th-century business started in the U.S., shifted to Japan when Atari collapsed and is now up for grabs again. In the meantime it is beginning to wrench young Japanese away from traditional careers. All this from games kids play.

are stuck with inventories and unamortized development costs if their games flop. The latest generation of 16-bit games often takes well over a year to develop, with as many as 40 people involved in planning, programming, character design and creating the soundtrack that goes along with the game.

Why is so much of this action Japanese? "In the post-Atari world, all the hardware systems have emanated from Japan," explains Robert Holmes, president of \$215 million (sales) Acclaim Entertainment, which in 1987 became the first U.S. company to publish games for Nintendo.

Why didn't more U.S. computer

Harley Westfall preferred football to business until he discovered that coaching a small business was even more of a challenge than coaching a gridiron team.

The reluctant heir

By Rita Koselka

HARLEY WESTFALL was coaching high school football in Denver in the mid-Seventies. It was an occupation more to his taste than working for his father's Adrian Steel Co. His dad, Robert Westfall, wasn't an easy man to get

along with—Harley's older brother Ike would soon leave the company after a dispute with their father.

Harley and his father, however, shared a passion for football. Bob Westfall, who founded the business in 1953, was a well-known University of Michigan fullback who played four seasons with the Detroit Lions. So Harley listened respectfully when his father asked him to join the team. Not without trepidation, he finally gave in in 1976 and came to work for Adrian Steel. Once there Harley quickly found himself entranced by the problems and challenges of business.

"If you make a mistake coaching, maybe you lose a first down, maybe a touchdown," says Westfall, a former Colorado State University fullback. "But if I make a real bonehead decision in business, there are a lot of people who depend on me for their livelihood and that of their families. It weighs on me."

Adrian Steel's 140 employees have good reason to be glad Harley Westfall gave up coaching football and decided to coach business instead. Since 1981, when Harley finally took charge upon his father's death, Adrian's earnings have compounded at 14% annually. In the fiscal year that ended last Sept. 30, Adrian earned \$2.1 million, on revenues of \$21 million. For a metal-bending business, those are really fancy margins.

Based in Adrian, Mich., the company makes and installs shelves, drawers and ladder racks in commercial vans. Its customers include telephone and power companies, and delivery firms like Federal Express.

Adrian Steel, which got its start as a

steel distributor, found its niche in 1961 when Ford Motor Co. introduced the Econoline, one of the first American-built vans on the market. Soon after, the elder Westfall started a little sideline business fabricating shelves for Econolines operated by Michigan's Consumers Power.

In the late Sixties Westfall convinced General Motors to let him set up an installation shop right outside its Chevy van assembly plant. This allowed Adrian Steel to customize vans for its customers, and then ship the vans out on General Motors' delivery trucks.

When the senior Westfall died, Harley Westfall was 31 and had worked with his father just four years, mainly in accounting and sales. But Harley had been a quick study. Talking to customers convinced him that Adrian Steel had to work closely with



Photograph by David Sullivan

Adrian Steel's Harley Westfall with his dad
The gridiron was their training ground.



A rich niche in metal bending
Netting 10% aftertax in a bad year.

all the automakers, not just GM. To this end, he quickly established installation operations near Ford's and Chrysler's van assembly plants. He also invested heavily in upgrading Adrian's manufacturing equipment; cutting assembly time as well as reducing labor costs.

"Anybody can build a shelf or a drawer," says Westfall. "The key is to have a quick turnaround. The minute the van runs off the [manufacturer's] assembly line, the customer starts paying interest charges."

Adrian Steel hasn't emerged unscathed from the recession of the last two years. Fleet managers have been delaying purchases and cutting costs.

To make things even rougher, Adrian's competitors—notably Masterack, owned by Leggett & Platt; and Crown, owned by the Allen Group—have held the line on prices, even as costs have risen. "From football I thought I knew what competition was, but I had no real idea until the last few years," says Westfall. "Service, where we've always been strong, doesn't buy you a cup of coffee if you can't match on price." Matching competitors' prices has cost Adrian Steel some profit; that 10% net profit margin of fiscal 1992 was a come-down from the 14% of 1990.

To differentiate Adrian Steel from its competitors in a tight market, Westfall has recently begun to market standardized work vans jointly with GM. Their primary prospects: small customers like electricians and plumbers, who might operate two or three trucks. Introduced in late 1991, the GM/Adrian Steel venture has already sold 3,600 vans, or 10% of the 35,000 vans Adrian outfitted last year.

Westfall has also pushed into the aftermarket, an area that competitors Masterack and Crown have largely ignored. Through 450 distributors nationwide, Adrian sells shelving and other van customization products to local tradesmen, who then install the components. This part of the business, which now constitutes 35% of revenues, has been growing at 25% annually.

If Westfall has a problem, it is this: what to do with the handsome profits thrown off by a niche business like his? The company has no debt and \$13 million—\$70 a share—in cash and marketable securities.

Be certain of this: Westfall is not going to rush out to expand or acquire in a business where he won't have the kind of competitive edge that he has in van outfitting. Nor can anyone force him to do so. He and his family own 51% of the 210,000 shares outstanding—recently quoted in the pink sheets at 110 a share.

He says he's more interested in keeping his workers employed than he is in the size of the company or the size of his net worth. Rare indeed for a midwestern metal bender, Adrian has never cut an employee from the payroll.

Meet Steven Harris: videogame fanatic, high school dropout, publishing magnate on the make.

The player

By Christopher Palmeri

STEVEN HARRIS' parents can claim a fair share of the credit for his success. "I wanted my son to play football and baseball, not videogames all day," says Marie Harris. But she allowed her boy to spend hours a day playing videogames when he was in his early teens. Nor did she object when, at 15, he was publishing a videogame newsletter, featuring reviews, game-playing tips and high scores, and flying to trade shows and tournaments to hawk it for \$2 apiece.

Reluctantly, she even gave in when Steve dropped out of high school in 1984 and moved from Kansas City to Ottumwa, Iowa to take a job managing a video arcade. While living in a room behind the arcade, the youngster racked up high scores on Congo Bongo and Popeye, landing him in the *Guinness Book of World Records*.

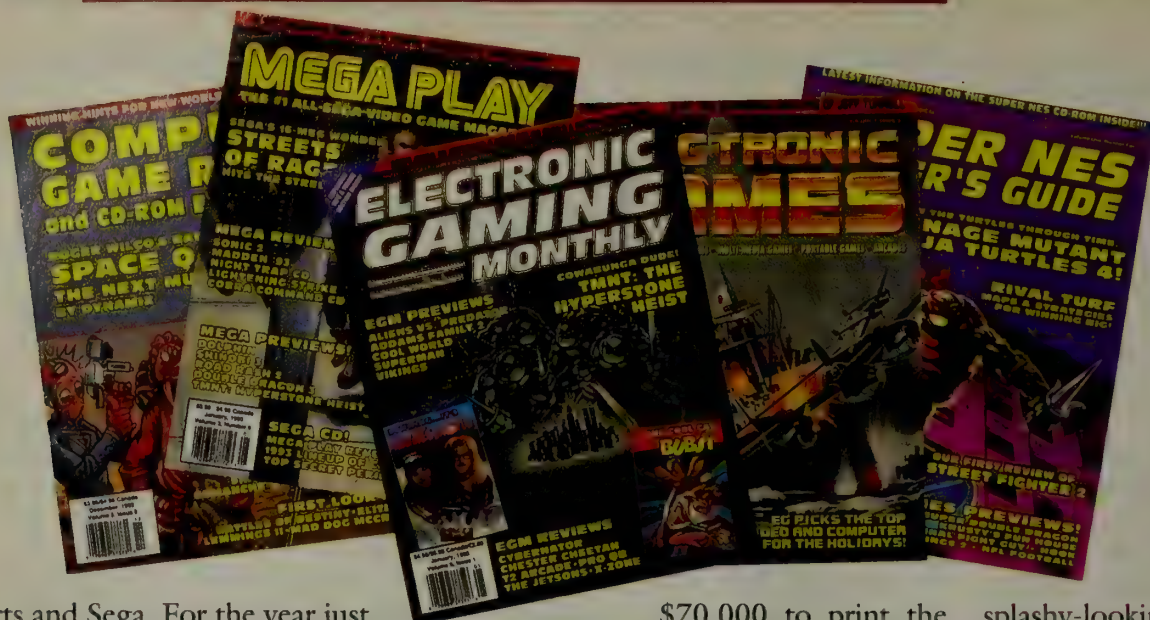
This after having earned the dubious distinction of playing Joust, a game featuring two combatants riding ostriches, for 63 hours straight. Poor Mrs. Harris.

But not poor Steven Harris. His passion for videogames had a mercenary side. "I was always asking myself, 'How can I get rich doing this?'" he recalls. And now he is getting rich indeed. Still only 26, Harris is the sole owner of Lombard, Ill.-based Sendai Publishing Group, Inc., publisher of four monthly videogame magazines.

With an audited circulation of 152,000, his flagship book, *Electronic Gaming Monthly*, is one of the top publications covering the \$4.5 billion videogame industry. A recent 292-page issue carried 168 ad pages, not including 2 advertising supplements sponsored by gamemakers Electronic



Sendai Publishing's Steve Harris
Not just another videogame wonk.



A selection from
Sendai's stable
of magazines

Core audience:
boys, ages 11
through 17.

Arts and Sega. For the year just ended, Harris says he took in \$13 million—about half from ads, half from circulation. The company, he says, should earn \$2 million pretax.

Not long after moving into the arcade, Harris took over running something called the U.S. National Video Game Team—basically a group of wonks like himself—which gave demonstrations of new games at malls and trade shows around the country. From there, he teamed up with another videogame fanatic, Californian Jeffrey Peters, to put on a national tournament, which drew 15,000 contestants and took in \$15,000.

With about \$10,000 saved up from their various endeavors, Harris and Peters started a magazine, called *Electronic Game Player*, in November 1987. The 50-page issue carried just three ad pages and sold less than 10,000 copies, mainly at a trade show and through a handful of retail shops.

To make money on the magazine, the young partners needed broader distribution. But traditional magazine distributors had been burned earlier by the Atari disaster—when the videogame maker crashed in 1985, it took some ten Atari fan magazines with it. Stymied by the distributors, Harris shut the magazine in mid-1988, after four issues.

One month later Harris got a call from Harvey Wasserman, an entrepreneur who ran a small distributor of niche magazines, like *Folk Art Treasures* and *Brides Today*, in suburban Chicago. Wasserman knew that videogames were hot, and he wanted a piece of that niche as well.

Wasserman advanced Harris

\$70,000 to print the first 165,000 copies of a new magazine, *Electronic Gaming Monthly*. In exchange he got a contract to distribute anything Harris developed. The first issue, priced at \$3.95, sold an encouraging 47,000 copies at newsstands and another 60,000 in a one-shot deal with Kay-Bee toy stores. One year and eight issues later, sales were up to 64,000, and losses had risen to \$250,000. But Wasserman, impressed by Harris' enthusiasm and knowledge of the videogame industry, decided to hang in.

By late 1989 the magazine turned profitable. To further expand circulation, Wasserman brought in Time Warner's Warner Publisher Services, which brought *Electronic Gaming* to 50,000 supermarkets and drugstores. This helped Wasserman as well as Harris, because the former received an override on whatever copies Warner sold. Meanwhile, Harris hired an aggressive advertising director away from a rival publication. Together they developed new magazines, like *Mega Play* and *Super NES* (with about 60,000 each in circulation), for users of specific game formats, like Sega and Nintendo.

What of former partner Peters? He claims Harris stuck him with \$50,000 in debts, which he had personally guaranteed. "I've yet to see any documentation," shoots back Harris. "I don't believe I owe him anything."

These days Harris' Sendai Publishing has a scruffy-looking editorial staff of 20, most of them videogame junkies in their 20s, who cover the 130 or so companies that produce videogames. The fruits of their labors:

splashy-looking features on hot new games, with game-playing tips and strategies; industry scuttlebutt; and candid reviews of about 20 new games each month. Wrote Harris himself of the videogame version of the *Batman Returns* movie: "Kill a bad guy and another appears. Yawn."

Harris enjoys the material trappings of his success. A Lamborghini Countach, an Acura NSX and a Mitsubishi 3000GT VR-4 now line the driveway of his modest suburban home; a \$58,000 Dodge Viper is on order. Former Sendai editor David White charges that money has changed Harris. "Steve's favorite movie is *Wall Street*," says White. "He doesn't love videogames anymore. He loves money and power."

Perhaps. But Harris knows his future depends on his ability to keep his core audience—11-to-17-year-old boys—entranced by his publications, and so is expanding them to cover other areas. *Electronic Gaming* now features a lifestyles section with information on movies, toys, sneakers, sports, comics and television shows. "Your average 15-year-old has a lot of interests—cars, comics, whatever—that aren't being satisfied by television shows," Harris says. Next summer he plans to launch a new magazine with information and pricing guides for collectors of comic books.

How is Harris raising his own son, 3-year-old Steven Jr.? With less tolerance for videogames than his parents afforded him. Harris limits his son's game-playing to a half hour each day. "You can't just let them play all they want," explains Harris in all sincerity. "They'd go crazy."



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Dogmatic environmentalism, like fascism, communism and eugenics, appeals to the frustrated egotism of intellectuals who burn to tell lesser people how to live.

Revelations for the anointed

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

THE 20TH CENTURY has been the century of the intellectual—and nowhere more so than in politics.

The two leading totalitarian regimes of this century, Nazi Germany and the Soviet Union, were created by writers and talkers: Adolf Hitler and V.I. Lenin. Hitler's *Mein Kampf*, and Lenin's *Imperialism* and other writings, were what put them on the map. The quality of their writings, in terms of logic or evidence, may have been shabby beyond belief. But these were masterpieces of propaganda.

Lenin's tracts rescued Marxism from the utter failures of its predictions and provided a whole new world vision, in which his political enemies were cast as international arch-villains, and Lenin's own followers as heroic agents of destiny.

Marxist-Leninist tracts like *Imperialism* gave comprehensive, dramatic and bitter explanations of the world's ills and discontents. Any sophomore could find in them the master keys to history, without the drudgery of having to know the facts or cope with the complexities of reality.

Hitler likewise created his own universe of the mind, peopled by whole

racism assigned their disparate roles in the grand scheme of history, and made titans or devils according to one man's imagination. Drivel? Yes. Powerfully effective? Also yes.

Some might say that these were pseudo-intellectuals or even anti-intellectuals, in terms of the quality of their reasoning or their use of evidence. But being an intellectual is an occupation, and the quality of their work does not change their occupation. A bad surgeon is still a surgeon—a deadly menace to the unsuspecting, but a surgeon nonetheless.

Being intellectuals was not an incidental part of the political careers of 20th century dictators like Lenin, Hitler or Mao. Their writings and sayings were the key instruments of their rise to power, just as military prowess was the key to Napoleon's. Moreover, their appeal was not just to the gullible masses, but to other intellectuals, including scholars, literary giants and others with impeccable credentials in the world of ideas.

If totalitarianism was the ugly beast of 20th century politics, its beauty was admired by the likes of George Bernard Shaw and Thorstein Veblen, and its apologists ranged from Pulitzer Prize-winning journalist Walter Duranty of the *New York Times* to whole armies of fellow-travelers in the media and academic world of their time.

The pilgrimages of intellectuals to the lands of the dictators—to Stalinist Russia, Maoist China or Castro's Cuba—have been among the amazing stories of this century, as eminent scholars and literary figures have come back to gush over the "progress" of tyrannies whose own people were making desperate escapes whenever they could.

In short, totalitarianism has been an intellectual phenomenon. It appealed to the same susceptibilities of intellectuals as other crusades that have seized the imagination of the educated and the articulate—so-called "thinking people"—such as the eugenics movement in the early part of the century and, later, apocalyptic environmentalism demanding Draconian regulations.

What all these movements have in common is a sense of a revelation grasped only by the anointed, but a revelation that needs to be imposed on the benighted masses for their own good. Could anything be more of an ego trip, or more in keeping with intellectuals' exalted view of themselves, or their resentment at seeing wealth and power in the hands of lesser beings?

Nothing as mundane as mere evidence can be allowed to threaten a vision so deeply satisfying. People who escaped from totalitarian paradises, and who told tales of the horrors there, were dismissed as political enemies spreading lies.

Where the facts were too blatant to deny, the explanation was that these were "growing pains" of a new society or "local excesses," and we were reminded that "you can't make an omelette without breaking eggs." The fatal talent of the intelligentsia is facility with words—and a blindness to the fact that reality is not nearly so malleable as language.

Only after the official archives were opened in the last days of the Soviet Union did the unthinkable horrors of an evil empire become undeniable. Yes, there was a deliberately engineered famine in the Ukraine under Stalin—and its victims exceeded even the horrifying estimates in Robert Conquest's classic study of the subject. Yes, the Soviets carried out a mass murder of Polish military officers and—we learned more recently—the execution of American prisoners from as far back as World War II, when we were supposedly "allies."

The past is irrevocable, but many of the factors behind its tragedies are still at work in the present, and are a danger to the future. The issues change—eugenics is not environmentalism—but the dogmatism and the ego behind the dogmatism are the same.

Restaurants trading at 165 times earnings, hot funds buying overpriced new issues, brokers propping up underwritings with outlandish forecasts. Anyone recall what happens when a go-go market ends?

Danger zone

By Gretchen Morgenson with Steven Ramos

GENERALIZATIONS ARE DANGEROUS, and no generalization is currently more dangerous than the concept that all small-cap stocks are underpriced relative to the stock market. Right now, a substantial portion of the small-cap segment is ridiculously overpriced and riding for a fall.

Two years of big gains in small-company stocks have followed eight lean years in which small stocks lagged big ones. Seeing the action and listening to predictions that the Clinton years will be good to small companies, investors have poured billions of dollars into o-t-c issues and into funds specializing in them. As of Dec. 29, the National Association of Securities Dealers Automated Quotations index was trading at an alltime high, up 14% from the start of the year, to a mere 5% rise for the big-company Standard & Poor's 500. The average price/earnings ratio on Nasdaq is 35, versus 24 for the S&P 500.

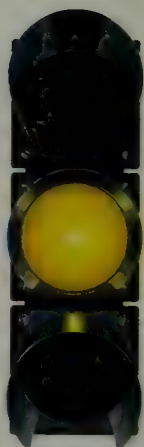
In investing, sweeping generalizations are particularly dangerous when they tempt people to ignore fundamental measures of value in individual stocks. Not all small-cap stocks currently are undervalued. The overheating is concentrated in initial public offerings and certain kinds of companies that resemble big winners of the past. Fallacy: This company looks like Home Depot, so it must be another Home Depot.

Concept stocks. Stocks with a story. Their prices frequently soar out of all relation to any measure of value.

EZCorp, an operator of pawn shops, came public in 1991 at 9¾, put out a secondary offering last spring at 16¾, and now trades at 23½. That's 71 times earnings and 4 times revenues. Concept? EZCorp buys up mom-and-pop pawn shops, then runs them more efficiently. So earnings are supposed to more than double in fiscal 1993.

Even sillier is Aerial Assault, a sneaker company with only six employees and virtually no operating record. But that didn't stop its \$10 units from jumping seven points the same day it hit the public market in December. That gave Aerial Assault a market capitalization of \$19 million. Another Nike? Don't bet on it.

Who's paying these prices? Individuals, and funds bought primarily by individuals—there aren't a lot of



billion-dollar pension funds that would bother with really small companies. But once you get thousands of investors piling into small-cap growth funds, a torrent of money tries to get through some rather small holes. The pressure builds, prices rise.

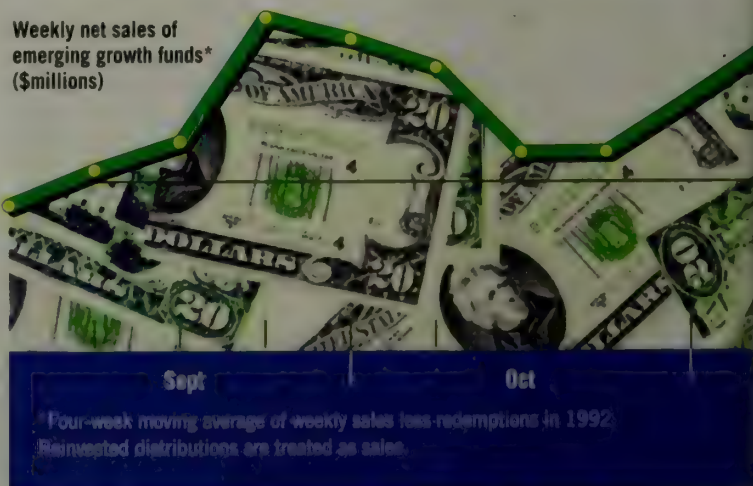
In the seven weeks immediately following the presidential election, \$2.9 billion flooded into small-cap funds (*see chart below*). Small-cap describes a big territory, with several thousand companies. The trouble is a good part of the buying pressure is directed narrowly, often into initial public offerings.

Wall Street unloaded on the public more than \$20 billion of newly public companies in 1992, a 34% increase over 1991. Michael Long of Rockbridge Partners, a fund manager in Charlotte, N.C., shakes his head in wonder: "One Friday in December, there were 16 equity deals on the calendar. Two years ago some underwriters wouldn't do equity offerings on Friday because buyers had their minds on other things."

Egging the public on is a chorus of financial consultants who generalize that since stocks have historically beaten bonds over long periods of time, they are the only smart investment for someone buying now for the long haul. In a

A mountain of money in small-cap funds

Weekly net sales of emerging growth funds* (\$millions)



refinement on this generalization, the bulls say that small stocks have beaten large stocks over long periods, so small stocks are an especially smart investment.

Note that in this line of reasoning there is scant attention to how the current prices of small companies relate to their earnings or their liquidating value. Presumably, if the Nasdaq index were to shoot from its recent 669 to 1669, the case for buying over-the-counter stocks would be all the greater, since the historical record would be all the more impressive.

All this has helped create a hothouse atmosphere for initial public offerings of small companies, and Wall Street is reaping a rich harvest from the heat. Brokerage firms raked in \$1.3 billion last year in fees for underwriting initial public offerings, according to Securities Data Co.

Hot fund managers also like a market like this one. Their fees are a percentage of the assets they manage, and the assets they manage are a function of their recent results. What better way to deliver performance than to buy a hot new issue, destined to climb in the aftermarket? Thus does a sort of symbiosis arise between underwriters and managers of some small-company funds. So long as money keeps coming into the funds, they can buy more of the hot stocks they already own, driving prices still higher. The result is a daisy chain of high stakes, reminiscent of the excesses of the junk bond market at its peak in the late 1980s.

Were you one of the lucky owners of NetWorth Inc., a

manufacturer of computer networking systems and software that came public at 16 in late November only to run to a recent 35¾, or 85 times trailing earnings and 6 times sales? Or did you get in on the Clinicorp offering last January? First priced at 6½, shares in this operator of chiropractic clinics jumped to 21⅞ at year-end. At that price, Clinicorp, which has lost money since it was incorporated in 1991, is trading at 23 times revenues and 31 times tangible book value.

Probably you missed these. But you don't want to miss the next NetWorth, so you grab the first thing that comes along that remotely resembles it. Or you mail your check to a fund manager who specializes in ferreting out NetWorths. He may well put your money to work in that very overheated part of the small-cap market.

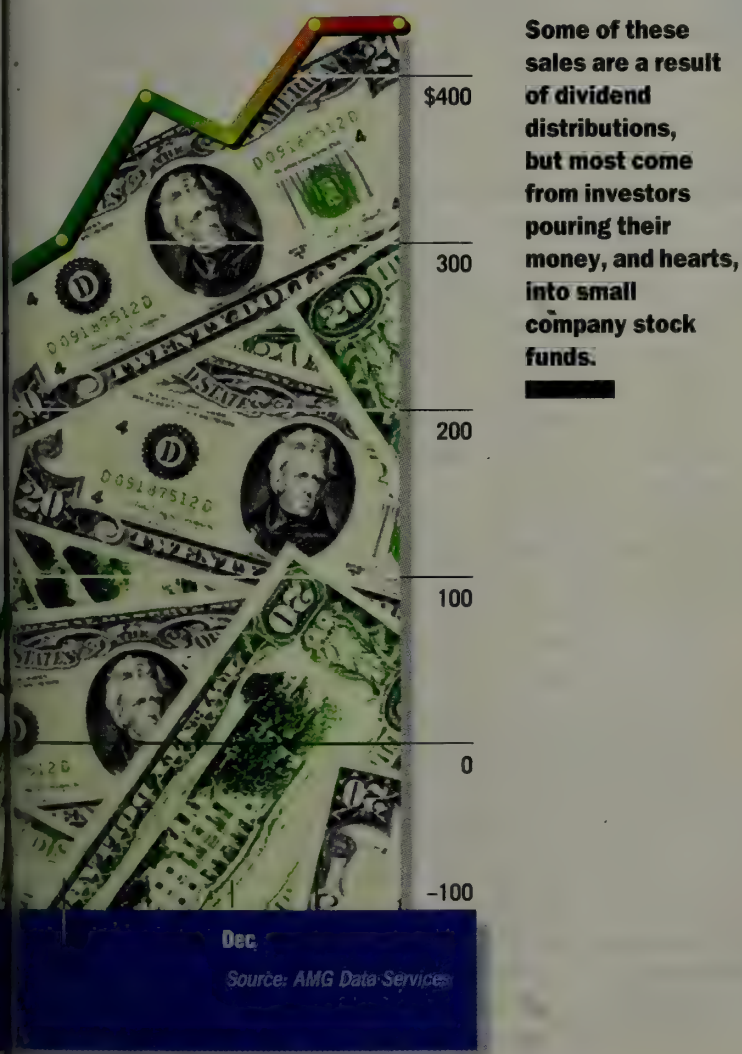
Some sectors have gone completely out of touch with reality. Restaurant stocks, for example (*see table, p. 69 top*). At 36¼, Lone Star Steakhouse & Saloon trades at 165 times trailing earnings; Starbucks, a gourmet coffee and espresso shop, trades at 35, or 103 times earnings. Sure, these are growing, for now. Lone Star is supposed to earn 35 cents a share in fiscal 1992, which would bring its multiple down from the ludicrous to the merely high. But it is in the nature of theme restaurants to go hot and then go cold. "Even if they're well managed, people eventually get tired of what they're offering and move on," says David Eidelman, a money manager at Eidelman, Finger & Co. in St. Louis. Remember Pastabilities, Flakey Jake's and Po Folks? Shares in these once-hot restaurant concepts from the 1980s are now worthless.

Wall Street's recent enthusiasm for restaurant stocks troubles Eidelman for what it says about the whole new issues market. Restaurants, he says, cannot be brought public until investors have already digested more plausible offerings, such as technology companies. The eateries surface late in a new issues boom and thus are a sign that the end is near, he says. To mix a metaphor, those who come in just before the music stops inevitably go to the cleaners.

Consciously or unconsciously many underwriters play a role in creating these unreal prices. Brokers like Montgomery Securities, Alex. Brown & Sons, Hambrecht & Quist, Dain Bosworth, PaineWebber and Piper, Jaffray work to keep their new stocks high for months after they come public. Fair enough: They owe it both to buyers and sellers. But this can lead to a tidy little private game in which managers of go-go small-cap funds get privileged allotments of hot new issues and, in return, refrain from selling as prices climb. Loyal buyers and keepers of new issues include Fidelity's small-stock funds and managers of the Montgomery Small-Cap Fund, the Oberweis Emerging Growth Fund and the Pacific Horizon Aggressive Growth Fund.

Underwriters argue that their attempts at stock levitation are simply a matter of trying to outwit buyers interested in a quick buck. "It's a mechanical deterrent to quick flipping practices," says Richard Smith, syndicate manager at Montgomery Securities in San Francisco. "There is a desire on the part of all managers to find out who are the buyers and who are the liars, in effect."

But this issue of deterrents and serious investors is circular reasoning. First of all, if investors had not been



Rich, racy and riding for a fall?

Company/business	recent	Price		earnings	Price divided by		Market value (\$mil)
		52-week high	low		sales	book value	
Apton/R&D health care prods	18½	25¾	8¾	NM	NM	52.6	\$196
Ballard Medical Prods/disposable medical prods	28½	35¼	18¾	43.9	11.7	12.6	544
Catalina Marketing/supermarket coupons	37¼	39¼	24¼	50.3	5.7	14.8	349
Checkers Drive-In Restaurants/restaurants	20½	26	8½	43.6	8.1	8.2	619
CIS Technologies/health care svcs	7¼	7¾	4	60.4	6.9	8.9	193
Clinicorp/chiropractic clinics	21¾	24½	7½	NM	23.0	31.0	48
Danek Group/spinal implants	43¼	44¾	21½	68.7	11.5	15.7	751
Education Alternatives/educational consulting	21¼	21½	5¼	NM	11.4	24.9	86
Electronic Arts/entertainment software	40½	40½	18¾	43.6	4.4	11.3	903
Empi/electrotherapeutic equip	37¼	38¾	16½	45.4	5.3	6.4	149
Fastenal/building materials	20¾	21½	14	48.3	5.2	10.9	394
GB Foods/restaurants	14¼	15¾	2½	NM	5.6	19.8	56
Gendex/medical prods	47½	47½	16	53.6	8.3	8.3	471
Hunter Environmental Svcs/hazardous waste svcs	5½	5½	1½	NM	NM	10.4	97
Inforum/hospital svcs	21¼	23¾	10½	51.8	12.0	5.3	110
Learning Co/educational software	17½	20½	8¾	48.6	4.7	5.0	100
Mitek Surgical Products/surgical implants	32	45¼	18	60.4	11.2	6.5	134
NetWorth/computer network equip	35¾	39½	28½	85.1	5.9	12.7	120
Outback Steakhouse/restaurants	28½	30¾	12½	62.0	7.3	11.8	717
Platinum Technology/educational software	19½	25¼	11¼	51.3	8.4	6.9	368
Respironics/medical prods	29½	29½	12¾	43.4	4.4	7.2	238
Summit Technology/medical lasers	29½	38½	21¼	118.0	15.7	14.3	440
Theragenics/cancer treatment prods	5¾	7¾	3¾	71.9	14.2	8.4	61
Wellfleet Communications/computer network equip	72¾	76¼	24	77.0	10.5	12.9	1,069
Zoll Medical/heart resuscitation equip	24¾	26¼	10½	75.0	6.7	7.9	143

NM: Not meaningful.

Source: Media General via Lotus One Source.

These 25 companies trade for at least 40 times their earnings, 4 times their sales and 5 times their book values. They are, by any measure, overvalued. In other words, they're the kinds of stocks investors adore right now. Stay away from them.

trained to expect new issues' shares to jump immediately, flippers would not be a problem. And, more to the point, if an underwriting were priced properly and the company had good prospects, why should the syndicate group worry about the effects of some immediate selling?

Funds, to be sure, played a role in earlier stock-buying manias and subsequent crashes. But their role is considerably larger today. Take the case of National Student Marketing Corp., that classic go-go stock that went public at 6 in 1968, hit 140 in December 1969 and crashed to 3½ the next July. As recounted in John Brooks' *The Go-Go Years*, the most conspicuous participants in that fiasco were bank trust departments, corporate pension funds and Ivy League endowments. Today the explosively growing fund industry holds center stage. Assets held in small-cap mutual funds total nearly \$28 billion today; that's more than half of all money invested in mutual funds in 1970.

Some of the games underwriters play:

Punishing flippers. In an attempt to curtail selling pressure, underwriters will take back a stockbroker's underwriting commission if stock allotted to his customers is sold immediately after an offering. Stocks trading with

these penalties carry a "P" next to their symbols on a broker's quote machine.

Example: Santa Fe Energy Trust, a new NYSE issue underwritten at \$20 a share in mid-November by Lehman Brothers, Kidder, Peabody and PaineWebber, carried a P for almost an entire month. While the restriction was in place, Santa Fe traded near 20; in mid-December the P disappeared and the stock fell the same day to 18½. It has recently traded below 18.

Underwriters have been known to employ the practice for weeks and months if the aftermarket isn't hot enough for their tastes.

Engineering an oversubscription. Many new issues are small in size—usually under 5 million shares. Yet the underwriting syndicates put on huge road shows to drum up investor interest in the stocks before they start trading. This creates an overabundance of demand. Cheesecake Factory and Starbucks are examples of issues that brokers estimate had as much as 50 times as many buy orders as the 2.3 million and 2.1 million shares that were available.

Sometimes firms will increase the size of the offering in the face of such demand. But what often happens today is

Restaurant madness

Company/business	Price		EPS	Latest 12 months		Market value (\$mil)
	recent	offer		sales (\$mil)	P/E	
Fresh Choice/soup & salad	23½	13	\$0.36	\$33	65	\$107
Krystal/hamburgers	25¼	12	0.87	224	30	191
Lone Star Steakhouse & Saloon/steaks & ribs	36¼	13½	0.22	23	165	501
Longhorn Steaks/steaks	23¼	16	0.50	46	47	123
On the Border/Tex-Mex	7⅞	8½	0.05	25	158	25
Starbucks/gourmet coffee	35	17	0.34	101	103	499
Taco Cabana/Tex-Mex	18½	13½	0.56	49	33	129

Sources: Securities Data Co.; Media General via Lotus One Source; company reports; Forbes.

Trendy eateries tend to come public very late in the new issues cycle. Perhaps you recall the offerings of 1983-84? It's déjà food all over again.

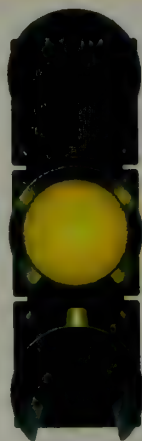
this: Underwriters will promise an allotment of a hot issue to their best customers only if each of these buyers agrees to purchase the rest of their initial orders in the open market after the stock has begun trading. This could explain the frenzied trading in such new issues as President Riverboat Casinos and Media Vision Technology, which rose 32% and 47% on the first day of trading.

Beating the drums—loudly. To avoid problems with the Securities & Exchange Commission, underwriting firms used to delay publication of analyst reports until 90 days after an underwriting, the so-called quiet period. But in April 1988 the SEC trimmed that period to 25 days.

Thus Christopher Vroom, an analyst at Alex. Brown, all last fall touted Eagle Hardware & Garden, a fledgling home improvement retailer that went public last July at a split-adjusted 9½. Vroom, whose firm comanaged the offering with Montgomery Securities, likened Eagle to “other great growth companies like Home Depot and Staples,” and expected it to show earnings growth of 45% a year through 1995. The stock, therefore, was a buy, even in the mid-30s. That was supposedly a mere 56 times the profit it would make in 1993. Unfortunately, the stock became an even better buy in mid-December, dropping to 21¼ following an announcement by the company that its inventory had been overvalued and it would take an earnings hit.

Choking off the short-sellers. When a stock is bought on margin, the shares are typically held for the client by the firm. These shares can then be lent, for a fee, to other, bearish investors, who need to borrow the stock in order to sell it short.

On many new issues today, brokerage firms choose not to lend the stock out, even though it is



in a margin account and available for lending. For instance, PaineWebber comanaged a 2-million-share offering of Compression Labs stock, a video-conferencing system, in June 1991 at 17¼. Watching the stock sprint to over 35 last year, some of the firm's brokers tried to borrow shares for clients who wanted to sell it short. They were told that they couldn't borrow the shares because they were on an unpublished “gray list” of stocks the firm would not allow its brokers to borrow.

Putting the stock in friendly hands. Underwriters are much more interested than they used to be in knowing who is placing orders for the shares. As one stockbroker puts it: “When you want to buy an

issue, you're asked: ‘Who is the customer and what is he going to do with it? Is he going to hold it?’ ”

Gerald Perritt, a FORBES columnist and the manager of the Perritt Capital Growth Fund, an \$8 million value-oriented small-company fund, won't touch new issues. He says: “I don't like to participate because I don't want to be beholden to anyone.”

Charles Royce, another small-cap value investor who manages one closed-end and two open-end funds totaling \$390 million in assets, isn't participating in the current new issues craze, either. He says: “We are most active in

buying them right at the beginning of the cycle or well after there have been disappointments, at the end of the cycle. We're not in either place at the moment.” In fact, Royce adds: “We're at a moment where the risk is the highest.” And Chuck Royce has built his career making money for investors in the small-cap stock area.

So next time someone tells you small-cap stocks are the place to be, ask him: Which small stocks and at what prices?

The new issues crowd

Fund	Assets (\$mil)	% of assets invested in new issues	P/E
Oberweis Emerging Growth	\$53	33%	28
John Hancock Special Equities	65	32	32
Financial Emerging Growth	116	18	36
Montgomery Small-Cap	202	18	27
SunAmerica Emerging Growth	25	18	26

Source: Morningstar.

Some fund managers avoid the new issues market and its machinations; these five find initial public offerings oh-so-easy to love.

Since Nov. 3 the media have been painting a brighter picture about the economy. Coincidence?

A new party line?

BY MICHAEL NOVAK



Michael Novak holds the George Frederick Jewett chair in religion and public policy at the American Enterprise Institute in Washington, D.C. His book *The Spirit of Democratic Capitalism* has been widely translated around the world.

A STARTLING THING happened on the day after Nov. 3, 1992: The press started telling the truth about the economy. Enough evidence had long been at hand; now, Bush having been defeated, it was all right to reveal it.

All during 1992 in front-page stories Sylvia Nasar of the *New York Times*, especially, and many other writers established firmly in the public's mind the premises of the Democratic campaign: that the 1980s had been an economic failure; that the rich got too rich and paid too few taxes; that the middle class worked harder for less money and became too heavily taxed; and that the heartless economic policies of Republicans had made the condition of the poor poorer. The outcome dearest to the press was change.

Well, now we have the change. The propaganda is no longer necessary. And so all those good folks in the press who feel slightly evil if they report anything that might help Republicans can shut off the propaganda machine and simply report the truth.

Thus it is now clear that, in what they said about the U.S. economy before Nov. 3, George Bush was much closer to the truth than Bill Clinton. After Nov. 3 questions to the latter

took the form: "Now that the economic picture looks different, what changes are you going to make in your economic proposals?" And of George Bush the press is still asking in innocence: "Isn't it ironic that all this good news came out after the election, and how does that make you feel?"

Some journalists dubbed the recovery of 1992 "the Clinton recovery." Clinton isn't even President yet, but that's the way it is with propaganda.

The very same reporter who burst upon the scene in early 1992 with front-page stories in the *Times* about "growing inequality" and the "disproportionate gains of the rich" began after the election to report (Dec. 12, 1992) things she hadn't gotten around to writing about earlier: that raising tax rates on the rich will alter the behavior of the rich, probably producing lower tax revenues. Rich people "have considerable flexibility to expose less of their income to taxation," the *Times* article discovers; "just how much flexibility they have has recently become apparent"—as if learning about tax-exempt bonds and the like for the first time.

The problem is, neither the Clinton team nor the political press (most of it) ever mastered the great economics argument of the early 1980s. They never learned the lessons of the Carter years. They never got the point of the Reagan revolution. So here we go again, as if all that effort was in vain.

Twelve years ago, when Jimmy Carter handed over the reins of government to Ronald Reagan, this was the economic playing field: Inflation had been in double digits for two straight years and stood at 13.5%; unemployment rates at 11%; the prime rate at 22%. Only 98 million civilians were employed. In four years, the poverty level (because of inflation) had jumped from \$5,800 to \$8,300 for a nonfarm family of four, and this redefinition raised the num-

ber of the poor from 25 million in 1976 to 29 million at the end of 1980. The top marginal tax rate stood at 70%. The top 5% of taxpayers paid 37% of all federal income taxes, a net of \$93 billion.

The Reagan revolution turned these numbers around in ways neither the media nor Clinton's team will admit. This month Bill Clinton inherits an economy in which inflation stands at 3%; the unemployment rate at 7%; the prime rate at 6%. More than 116 million civilians are employed—up 18 million since the Carter era. During the 1980s real aftertax income rose 16% for all Americans, and the lower half pushed up the median real income more than 12%. Individuals did even better: 86% of the persons in the bottom quintile and 60% in the second-lowest quintile moved up to a higher quintile.

New small businesses came into existence at a rate of 750,000 a year, 13,000 a week, 4 or 5 every minute of every working day.

The shift in the tax burden was most remarkable in the Reagan years. Lower rates for the rich raised higher actual revenues. By 1990 the top 25% of income earners were paying a greater proportion of all federal income taxes (77%) and a larger gross amount of federal revenue than they had ever paid before. From 1981 to 1990 the top 1% jumped from paying 18% of all taxes to paying 26%—a 45% jump. The top 5% jumped from paying \$93 billion in 1980 to \$199 billion in 1990 (from 37% of all taxes to 44%).

Campaigner Clinton argued that this record represents decline. He wanted to repeal it. He wanted to go back to raising tax rates on "the rich." We have all been there before. Let's swallow hard and hope that it will be a better go-around this time. Or that the new President will correct the errors in his campaign oratory. ■

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In the U.S., fried chicken outlets are struggling, but Asians can't seem to get enough of the bird.

Hot Wings take off

By Andrew Tanzer

ASK JOHN CRANOR, the president of PepsiCo, Inc.'s KFC Corp. division, about his domestic business and he gets a bit touchy. Kentucky Fried Chicken's same-store sales were up only 1% in 1992; they fell 5% in 1991. The U.S. fast-food market is clotted, some of KFC's franchisees are mutinous and the word "fried," with all its artery-clogging connotations, continues to dog the company.

But mention the Asia/Pacific region and Cranor's mood brightens immediately. "We're looking at almost unlimited opportunity for growth in Asia," he gushes.

KFC is already the Western fast-food leader in South Korea, China, Thailand, Malaysia and Indonesia, and runs second to McDonald's in most other Asian markets, such as Japan and Singapore. Sales and profits in Asia (excluding Japan) are growing at over 30% a year. By 1997 KFC expects Asia to account for 33% of projected system retail revenues of \$9 billion, up from 22% of its \$6.4 billion revenues.

Average sales per store in Asia are \$1.2 million, compared with \$750,000 in the U.S.—and remember this: Per capita incomes in most of KFC's Asian markets are much lower than in the U.S. The key is volume. The world's busiest KFC outlet is Beijing's cavernous 701-seat Tiananmen Square restaurant which serves 2 million to 3 million customers a year.

KFC's first ten outlets in China—in Beijing and Shanghai—serve an average of 1 million customers a year each—four times the average traffic in the U.S. The Louisville-based fast-food operator plans to open outlets in nine more Chinese cities this year.

Timothy Lane, president of KFC



KFC Asia/Pacific President Timothy Lane
"A step up the socioeconomic ladder."

Asia/Pacific, says profit margins in Asia (outside of Japan) are double those here. In the next five years KFC will add 1,000 restaurants to the region's 1,470—more than one outlet every two days. Says Lane: "The opportunity is exponentially greater than in the U.S., and more important, it's eminently achievable."

KFC isn't alone in Asia. McDonald's, Pizza Hut and many other American fast-food outlets are also sprouting from Tokyo and Seoul to Jakarta and Singapore, to serve growing concentrations of young middle-class urban workers with rapidly rising disposable incomes. Women are entering the work force at a brisk pace, leaving them with less time to cook

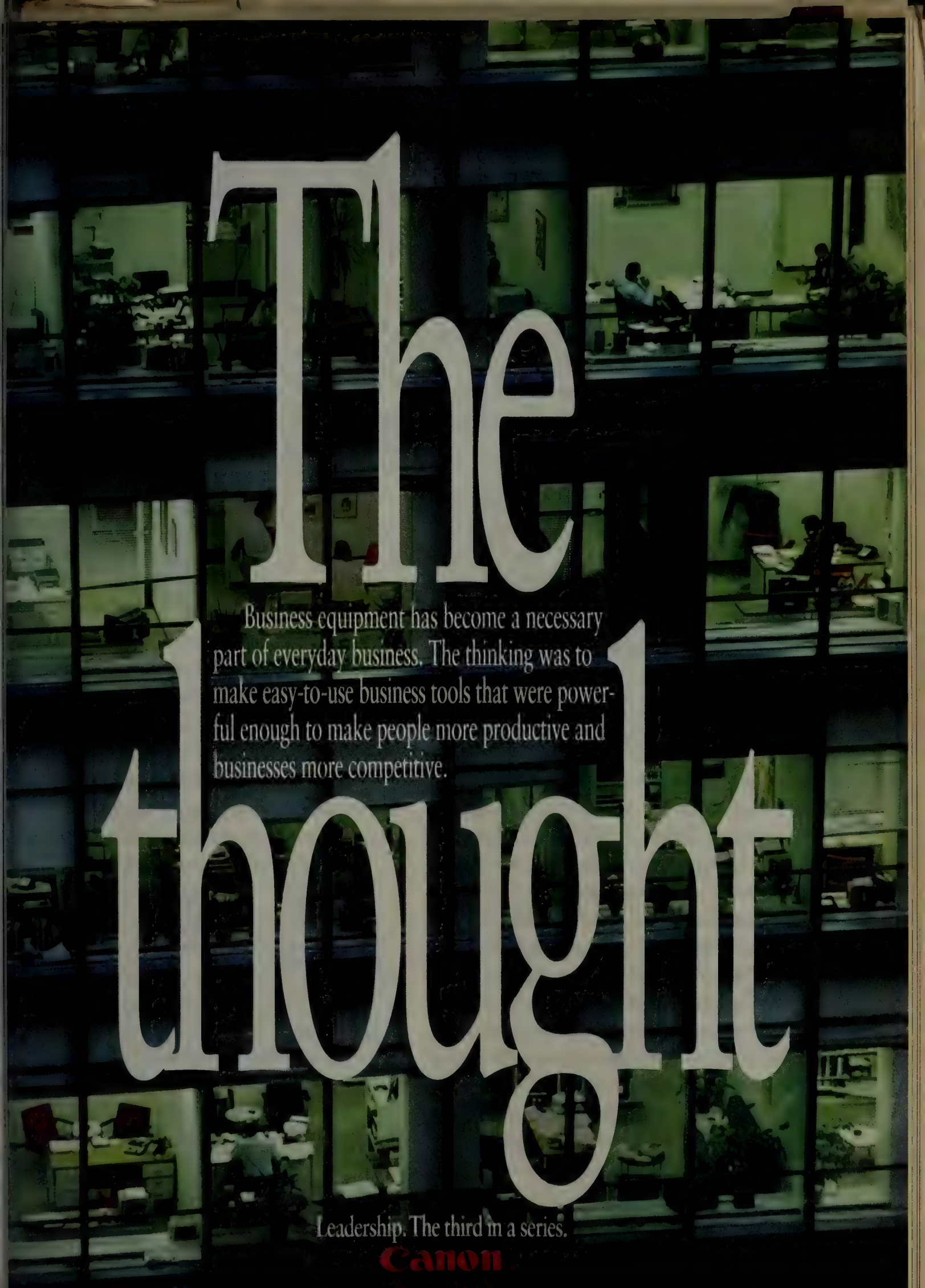
but more money to eat out. In Bangkok, market research commissioned by KFC in 1990 showed that 22% of the population had eaten at a fast-food outlet in the preceding three months; when the survey was redone in 1992, the number had jumped to 42% (in the U.S., it's 90%).

In the U.S., health fears and a rather shabby image have driven many fast-food junkies into the closet: Everybody eats fast food, but nobody likes to admit it. In Asia, it's just the reverse. Western-style quick-service eateries are trendy, branded, air-conditioned—and very hygienic—alternatives to local food-hawkers' stalls. "The image of fast food is very positive in Asia," says Karel Hofland, a partner at Hong Kong-based Technomic Consultants International, a food consulting firm. "It's not perceived to be junk food."

But KFC also has one big advantage over its U.S. fast-food rivals in Asia—to wit, its chicken menu. Chicken is much cheaper and more widely available than beef in Asia's developing countries. It's a lot more familiar to Asian palates than the cheese topping on pizza. And it doesn't face any religious strictures, the way pork does in Muslim countries like Indonesia and Malaysia and beef does in India. Says KFC President Cranor: "We have yet to find a place in the world where chicken is not a staple in the diet."

So KFC's Asian menus are almost identical to the U.S. menus: fried chicken, mashed potatoes and coleslaw. There is some tinkering around the edges. In Thailand, for instance, Hot Wings, a spicy chicken dish, is considerably more spicy; the coleslaw is sweeter. In the highly competitive Japanese market, KFC has branched out into dishes like chicken curry.

Prices at Asian KFCs are considerably higher than for local fare, such as hawkers' stalls, but that, too, is part of the image. The quality, consistency, comfort and status of eating at an American-style restaurant with a contemporary decor justify the premium. "We're selling a lifestyle and concept, not just a product," says Hester Chew, KFC's country manager in Thailand. Adds his boss, Timothy Lane: "KFC is one of a person's first stops on his or her way up Asia's socioeconomic ladder."



The

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it came as no surprise that our research team developed new ways to insure unsurpassed copy quality. The New

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Process (NP) system, which incorporated our Toner Projection Development System, was one of the first steps in creating our innovative NP line of copiers to provide crisp, clear copies. But we quickly realized that copy quality was only one part of the improvements businesses needed. The next goal was to insure that our high-volume copying systems were reliable, efficient and easy to use, too. A goal that has been perfected in The Corporate Line of high-volume NP Copiers from Canon.

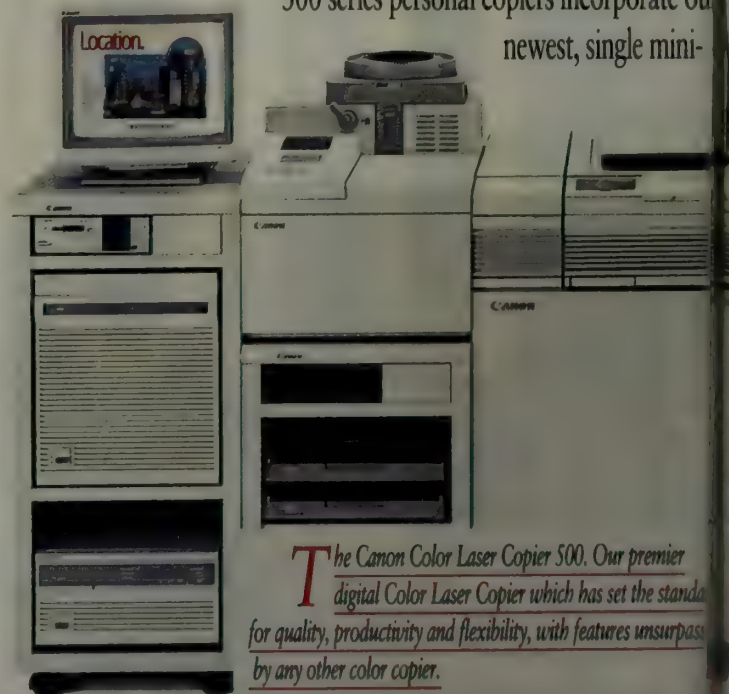
To ensure The Corporate Line copiers stay up and running, we utilize our patented Amorphous Silicon Drum. This Canon innovation can last more than twice as long as conventional copier drums, based on copy volume, so scheduled maintenance goes down. And since productivity is just as important as reliability, The Corporate Line also has incredibly fast first copy speeds so short runs are more efficient, and offers the largest paper capacities in the industry, so users will spend less time at the copier and more time working. You can find all these innovative features in The Corporate Line copying systems, featuring the NP 6060 and the NP 9800. It's breakthroughs like these which have helped make Canon copiers the number one choice for the last ten years.

Our engineers didn't stop with just improving high-volume copier systems, they also improved our best selling line of personal copiers. For years Canon

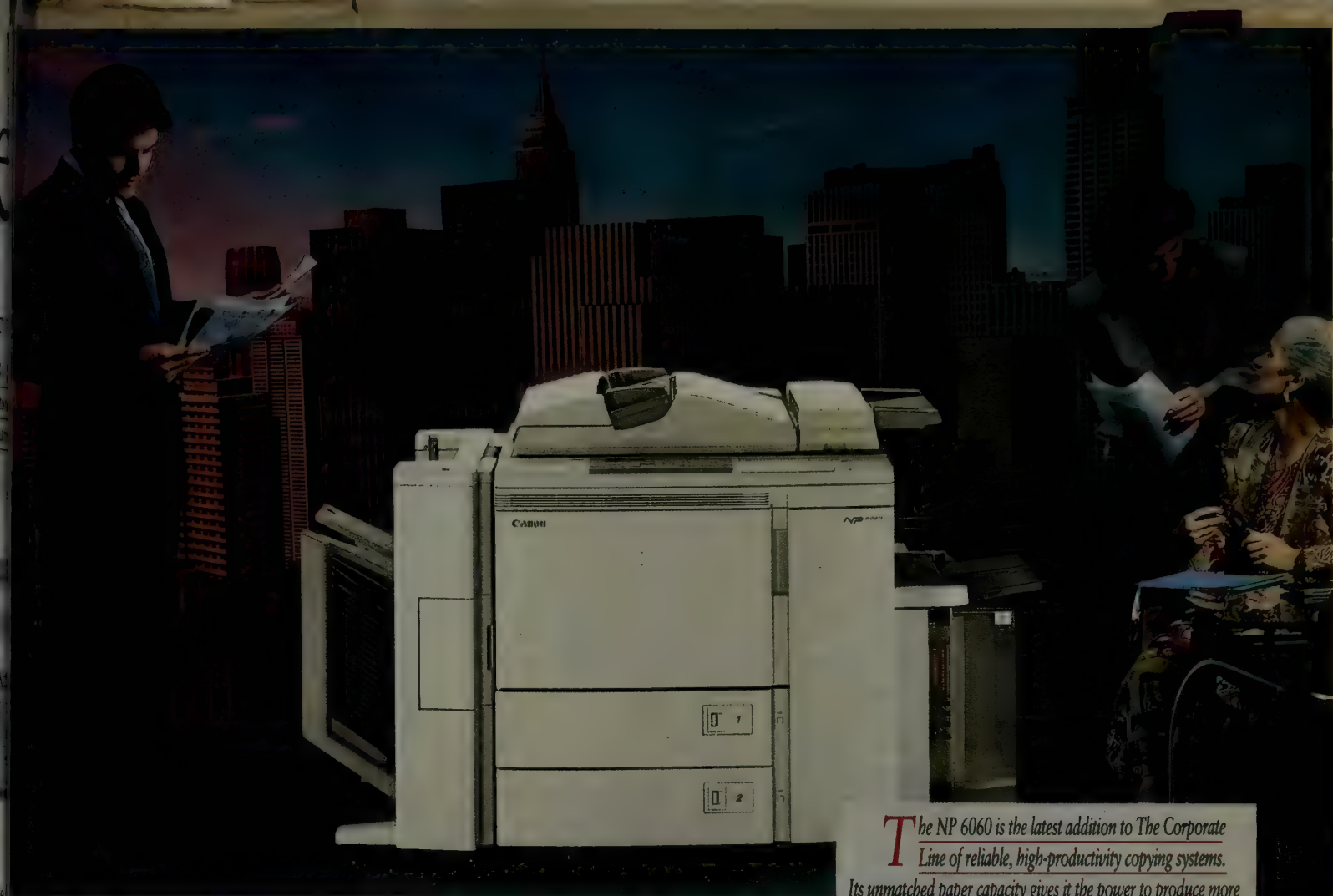
The Canon PC 330 personal copier. The PC 330L for copying up to legal-size) features our most advanced single-cartridge system, requires no waste time and can even turn itself off when you forget to.

recognized the growing number of people working in their home offices or small businesses. These people had very unique needs. They needed high-quality, low-volume copiers that were extremely reliable, easy to use and compact in size. The breakthrough invention was the patented Canon single-cartridge system. In this system, our engineers found a way to put everything that could run out or wear out — the toner, developer unit and copier drum — in one easy-to-replace cartridge. This single innovation made Canon personal copiers virtually maintenance free, since changing a cartridge practically gives you a brand new copier. But of course, we just couldn't leave well enough alone. Our

300 series personal copiers incorporate our newest, single mini-



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With the growing popularity of facsimile machines in businesses across the country, came also the desire to send and receive better looking faxes. So Canon engineers set their sights on raising the standards for faxes, too. Our R&D experts looked at various innovations

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Class plain paper facsimiles. We also invented the Canon UHQ fax imaging technology, which markedly improved image transmission, assuring that graphics, text and photos are sent with more depth and clarity than ever before. What's more, our Hyper-Smoothing

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Canon's technological leadership. It started with a thought and turned into products that became the market leaders. We call these the products of enlightened thinking. After trying them, you'll see why Canon is the number one source for office automation. For more information call 1-800-OK-CANON (For personal copiers 1-800-4321-HOP).

Canon

Wash loans on life insurance policies are being marketed like they're going out of style. They just might be, if insurance agents get too greedy.

Wash out

By Carolyn T. Geer

THE INSURANCE loophole known as inside buildup is in danger. It is being taken to such absurd extremes that Congress just might crack down.

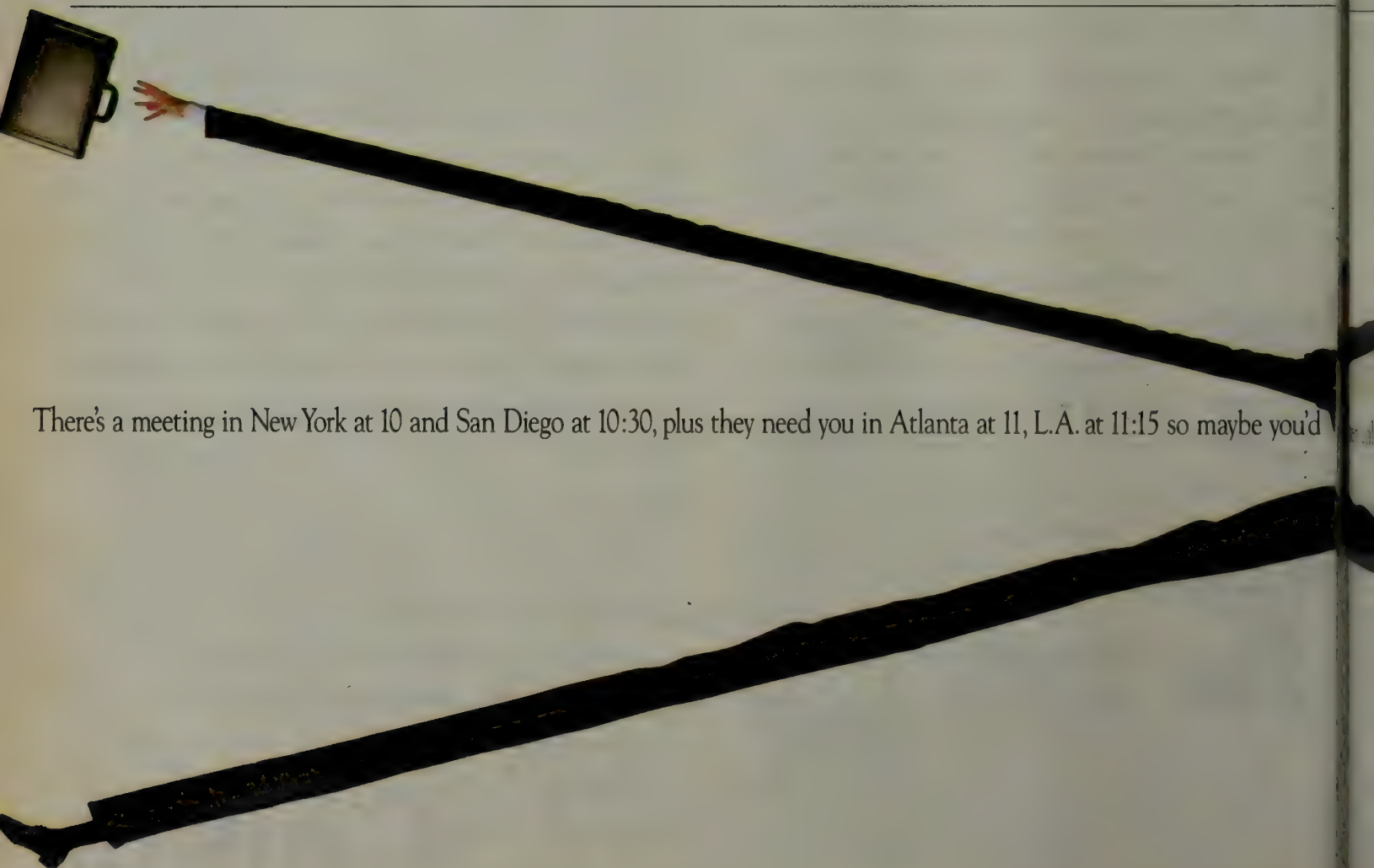
Inside buildup is that peculiarity of life insurance that allows assets to grow inside a policy without being taxed to the policyholder. It has been a fixture of the tax code since 1913, and has survived many an assault from tax reformers. The closest Congress has come to treating insurance like any other investment came in 1988. That year's tax act closed the loophole for insurance products that are heavily weighted toward investment and contain only a fig leaf of death protection.

A newly popular gimmick from the insurance industry, however, once again stretches the loophole to the breaking point. This time around the agents are pushing what they call "wash loans," which supposedly turn cash-value life insurance into a terrific retirement savings plan. Rather than cash in a policy when you retire, you just borrow most of the cash value out of the policy—tax free. What about interest on the "loan"? Not to worry, says the salesman. The interest you are charged is exactly equal to the interest being credited to you inside the policy. In fact, you never pay the loan back. It's just a wash.

Here's one illustration, from American Express' IDS Life Insurance Co. A 35-year-old nonsmoking male buys a \$100,000 policy for \$1,055 a year. After 20 years of premiums, when he has paid in a total of \$21,092, the cash value is projected to be \$30,635. He stops paying premiums and "borrows" \$25,000 of the cash value. Cash profit from the deal: \$3,908, not counting the value of death protection all those years. Profit reported to the Internal Revenue Service: none.

The remaining, unborrowed cash value in the policy is enough to keep the policy alive, with at least some death benefits, for another 11 years. At that point the buyer would have to chip in more premium dollars in order to avoid having the policy lapse. A policy lapse would be catastrophic from a tax point of view. It could give rise to a whopping dose of phantom interest income, offset by interest cost that will probably not be deductible.

IDS is one of the more restrained marketers of wash loan insurance. In a 30-minute videotaped sales pitch, an agent who usually sells for Commercial Union rambles on about tax-free



There's a meeting in New York at 10 and San Diego at 10:30, plus they need you in Atlanta at 11, L.A. at 11:15 so maybe you'd

investing, mentioning death benefits as an afterthought.

John Segal

Besides IDS, insurance companies that have added wash loans to their line of policies in the last year or so include Transamerica Occidental, Connecticut National, Travelers and Manulife Financial. Sometimes the policy permits a wash loan only after the contract has been in force for, say, ten years. The policy may or may not guarantee the wash loan feature for the life of the contract.

Some insurers have resisted the temptation. One is LifeUSA, a Minneapolis-based life insurer that markets annuity-type policies. "It's another example of what the industry has done to try to make an insurance policy look better than it is," says Robert MacDonald, LifeUSA's chief executive. Adds Peter Katt, a fee-only life insurance adviser, who says his clients have been barraged by pitches for wash loan policies: "It's inconceivable to me that Congress isn't



going to close this loophole."

Indeed, there's some chance that the tax authorities could attack these loans without specific legislation. "The IRS could argue that the payout is not a loan but a distribution," says David Bohl, a financial planner with Arthur Andersen who specializes in insurance. This would be a disaster for policyholders who pay in for years before discovering that they can't get at their money without paying taxes.

Worse for the insurance industry would be a legislative solution. It would be easy enough to tighten the

1988 rules on investment-oriented policies. Those rules count any policy with withdrawal—whether characterized as a loan, dividend or anything else—as a distribution of profit if the policy's cash value is more than total premiums paid. In essence, a policy is considered investment oriented if the premiums paid in the first seven years are higher than the premiums would have been on a policy

that is fully paid up after seven years. For our hypothetical 35-year-old getting \$100,000 of coverage, premiums can't be more than \$2,874 per year without throwing the policy into the dreaded investment-oriented category.

Worse still for the industry would be a sweeping reform that strips cash-value policies of their all-important tax-free inside buildup. Insurance agents are a pretty powerful group in Washington, but you never know what a revenue-hungry Congress might do. ■

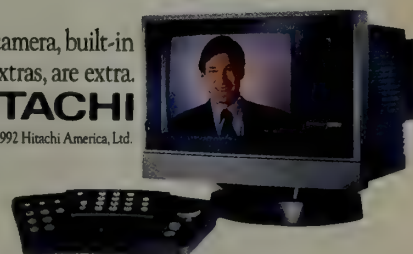


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Buying the stock of Freeport-McMoRan is a cheap way of buying a piece of two of the most efficient mining companies in the U.S.

Trusting the CEO's instincts

By Seth Lubove

SET AGAINST a cloudless Gulf of Mexico sky, Freeport-McMoRan Inc.'s Main Pass offshore sulfur mining rig is so vast that workers use golf carts to traverse the mile-long, windswept span. Opened last spring, it straddles the second-biggest North American sulfur discovery in history and uses a computer system so advanced that the rig can be operated from New Orleans headquarters in case of an evacuation.

But not even computers can neutralize the forces of supply and demand, and now there's so much sulfur that prices are in the basement. Because of cut-rate sales by Canada and Poland, the price of sulfur, a key ingredient of phosphate fertilizer, has sunk to \$72 a long ton, from \$147.50 in 1991. Technology, no matter how advanced, can't make a commodity very profitable if prices drop 50%.

So these are hairy times for James (Jim Bob) Moffett, Freeport's 54-year-old wheeler-dealer chief executive and the "Mo" in McMoRan. Moffett has bet his company's future on two huge mineral discoveries: the Gulf of Mexico sulfur mine, and a gold, silver and copper mine in the Indonesian province of Irian Jaya—the western half of the island of New Guinea. If copper and fertilizer prices rise with the recovery of the world economy, Moffett's strategy will pay off. If they stay down for too long, Jim Bob Moffett could be in big trouble.

Moffett is a flamboyant character, famous for his Elvis Presley imitations, complete with a custom-leather version of the King's jumpsuit. If he acts like a bit of a gambler, Moffett is convinced he's betting on a sure

thing. "We're posturing [sic] for an incredible payday," says René Latio-lais, head of Freeport's sulfur and fertilizer business.

The "posturing" has been going on since the 1981 merger of Freeport Minerals Co. and McMoRan Oil & Gas Co. into the present \$1.6 billion (estimated 1992 revenues) natural resources company. Moffett, who became chief executive of the combined firm in 1984, invested more than \$1 billion to augment the company's depleting sulfur reserves, buying geothermal properties, oil and gas assets, and phosphate mines in Florida.

But no sooner had the buying spree ended than Moffett began to sell assets and to spin off some of the rest to shareholders. Why the reversal? Two very big reasons: the discoveries at Main Pass and Irian Jaya within months of each other in 1988. These would require huge development costs, and Moffett didn't want to borrow more money in a business notorious for its price swings and unpredictable cash flows.

So he sold geothermal, part of the oil and gas, nitrogen fertilizer and low-grade Nevada gold properties. He had previously spun off the copper and gold as well as fertilizer operations into separate companies (Freeport-McMoRan Copper & Gold Inc., 73.2% owned by Freeport; and Freeport-McMoRan Resource Partners, a 51.3%-owned limited partnership). Now, flush with cash, he raised yet more in a flood of new equity, zero coupon debt and convertible debentures. Thus Moffett was able to spend \$1.2 billion to develop Main Pass and

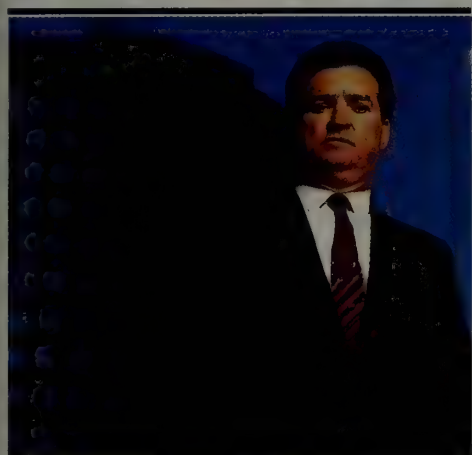
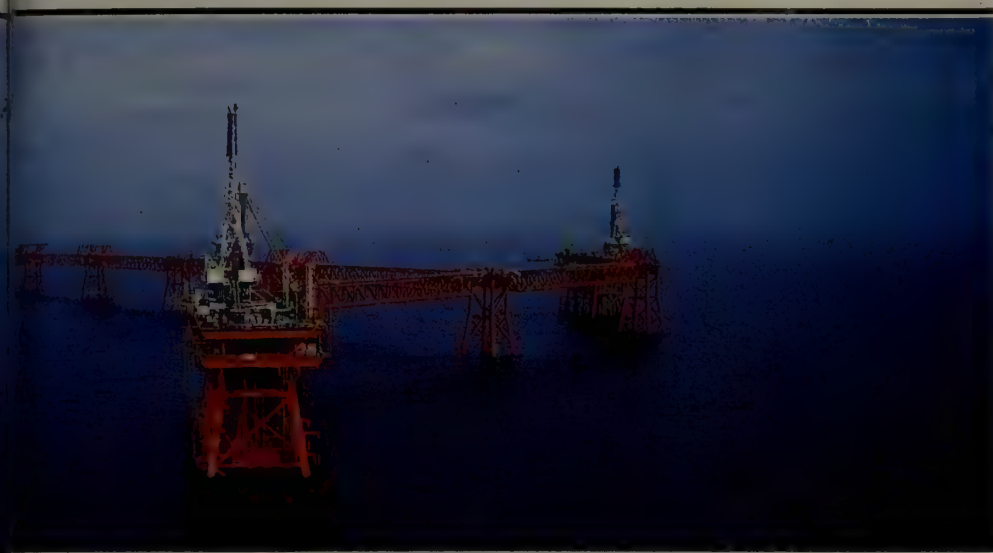
Irian Jaya without adding debt, which stood at \$1.3 billion at the end of the third quarter of 1992.

While it is easy to be pessimistic about a business where prices can swing so wildly, it is not hard to see the reasons for Moffett's optimism. With 67 million long tons of recoverable sulfur under a salt dome cap, of which Freeport-McMoRan Resource Partners owns 58.3% (IMC Fertilizer Group, Inc. and Homestake Sulfur Co. are the minority partners), Main Pass is second in reserves only to Texasgulf Inc.'s 80-million-long-ton Boling Dome discovery in Texas, now all but depleted. There's also 38.3 million barrels of recoverable oil. But the sulfur is the attraction; it gives Freeport a steady 30-year supply of sulfur, which is combined with Freeport's phosphate rock from Florida to form diammonium phosphate (DAP), among other chemical fertilizers. Phosphate fertilizers have the highest price per pound of any fertilizer.

With the Main Pass discovery plus the 1987 acquisition of the Williams Cos.' Agrico phosphoric acid plants, Freeport-McMoRan Resource Partners is the world's largest integrated phosphate fertilizer producer, with among the industry's lowest costs.

On the other side of the world in Irian Jaya, the recoverable ore reserves discovered in 1988 are staggering. Total established so far: the world's largest single reserve of gold, at 32.4 million ounces, 50 million ounces of silver and 21.8 billion pounds of copper. By 1997 Kidder, Peabody & Co. analyst Marc Cohen expects production to climb to 980





Jackson Hill/Southern Lights

TOP: Freeport's Main Pass sulfur rig

The problem is low prices.
Chief Executive Jim Bob Moffett
Getting set for a big payday.

million pounds of copper and 1.4 million ounces of gold. At the prices Cohen then expects, that should bring in some \$1.6 billion in revenue, more than doubling the copper and gold company's earnings contribution to the parent. Not bad for leases that Moffett says investment bankers had advised in 1984 might with luck be worth \$150 million.

"The real potential is limited by the imagination of the guy who's looking at it," says Moffett happily. The more his engineers look, the more they find. Moffett: "The dilemma is we designed a \$550 million expansion, but now with 800 million tons of ore we've got to start a new expansion. So in 1992, [instead of] being at full production, we announced a second expansion."

Freeport's Indonesian mine is situated atop a 13,123-foot mountain

peak. Before the ore can be brought down to sea level, it has to be crushed and processed. So Freeport built an ore pass, a sort of giant laundry chute that drops fist-size chunks of ore 3,000 feet, breaking it into finger-tip-size pieces, which are then sent on a slurry line to the port. The process reduces mechanical crushing by a third while more than quadrupling throughput to 63,000 tons per day. Freeport is among the world's lowest-cost copper producers, despite the extensive infrastructure that had to be built at Irian Jaya, an area so remote that there are occasional reports of cannibalism and head-hunting.

Most costs at a mine are fixed; the more ore that goes through, the lower the cost per ton. In a basic industry, like mining, extraction cost is the key to survival. "We're in a deflationary spiral where world commodity prices have been halved since 1980," Moffett says, adding he has no doubt that prices will swing up again when the world economy recovers. "When you get commodities this low, what happens is all the high-cost producers have to shut down. That means shortages in the next ten years."

In phosphate fertilizer, too, Freeport has a \$12-per-ton cost advantage over most competitors. The company's Florida phosphate mineral deposits are close to the port in Tampa, while its fertilizer plants are on the Mississippi, which cuts through a section of the country that uses some 40% of the nation's phosphate fertilizers—the rich Midwest cornfields.

For all its advantages, Freeport trades at a multiple that's less than

those of competitors such as the RTZ Corp. Plc. and Newmont Mining Corp. Freeport-McMoRan is now basically a holding company for its positions in Freeport-McMoRan Copper & Gold and Freeport-McMoRan Resource Partners. As separately traded stocks listed on the New York Stock Exchange, the two companies have a combined market value of \$6 billion. But the market places a value on the holding company's 66% interest of just \$2.4 billion. Put it this way: Each Freeport-McMoRan share, recently selling at 17½, commands shares worth \$28.39, a 40% discount. Besides that, the stock has a handsome 7% yield. So much for the efficient-market hypothesis.

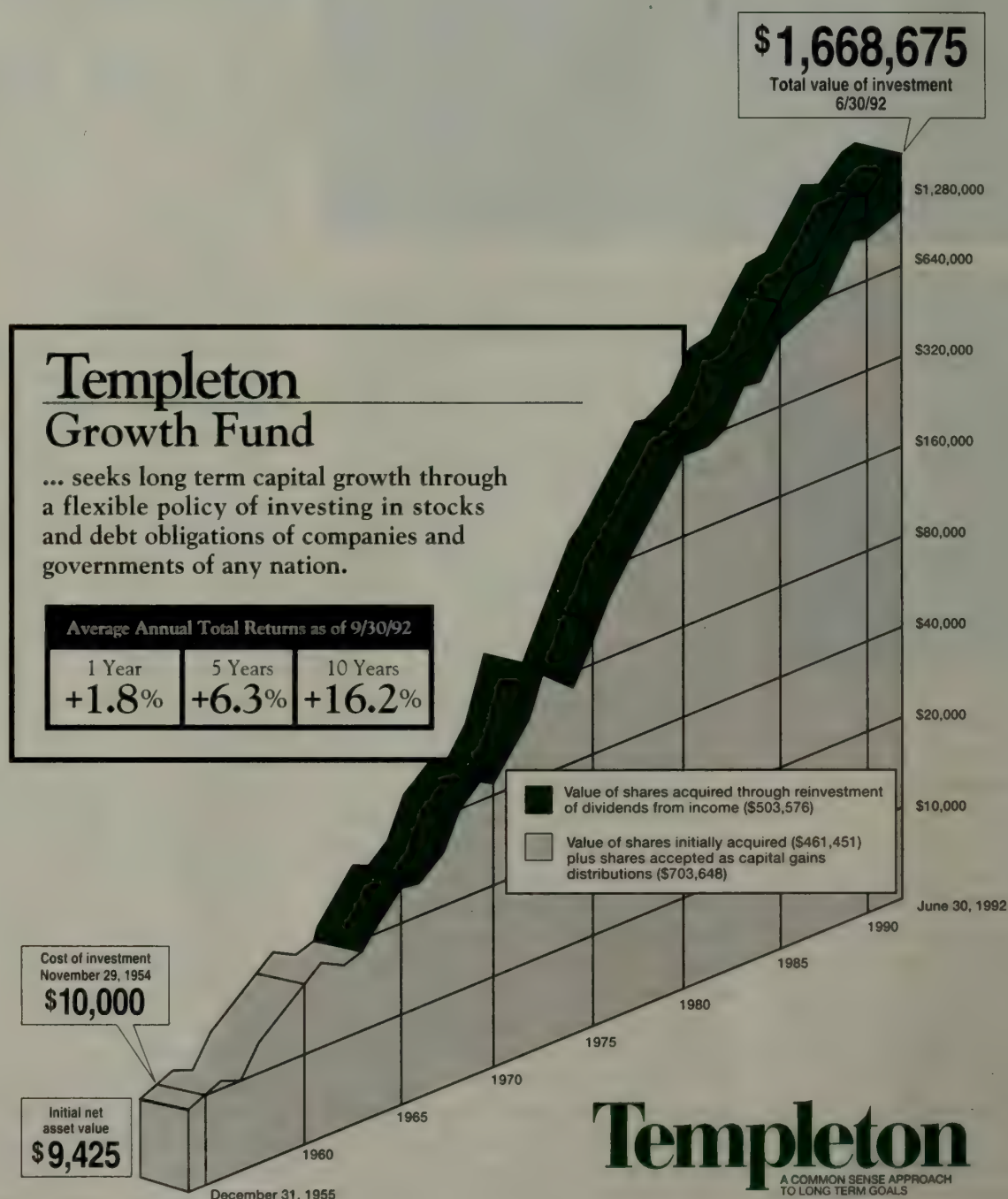
Since the market discounts the values underlying Freeport's stock, Moffett has been taking advantage of its myopia. Since 1989 Freeport has spent \$1.1 billion buying in its shares.

When will the turn finally come—and what could it bring? Right now fertilizer prices are the biggest drag on earnings. Expected 1992 operating earnings for Freeport-McMoRan Resource Partners are dismal: \$39 million, on sales of \$892 million. But fertilizers also have the biggest potential for rapid improvement. India, for example, has been one of the largest importers of phosphate fertilizers. Now that its foreign exchange crisis has eased, it is returning to the market. China has discovered chemical fertilizers and is starting to be a huge customer. Every \$10-per-ton increase in the fertilizer price adds \$40 million—28 cents a share—to Freeport's cash flow. Meanwhile, copper demand is rising, while supply is shrinking as inefficient producers drop out.

Kidder, Peabody's Marc Cohen estimates that Freeport-McMoRan will have operating earnings of just \$33 million in 1992, but for 1993 he expects operating earnings to almost triple, to \$94 million, 65 cents a share.

But that's on the come—and Moffett concedes as much. "All great companies are built on the instincts of their CEOs," he says in the back of a stretch limousine, en route to Freeport's customized, \$51 million Boeing 757, which will fly him to Irian Jaya. "You've got to be able to just goddamn know your instincts are right."

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Ingersoll-Rand prospers today because it stumbled so badly a few years ago.

A traumatic experience

By Paul Klebnikov

"WE ARE NOT a glamorous company," says Ingersoll-Rand Co. Chairman Theodore Black, between puffs on his unfiltered Camel cigarette. But what's glamour compared with profitability? In *FORBES'* Annual Report on American Industry (Jan. 4), Ingersoll-Rand was by far the most profitable of the large heavy-equipment makers.

A maker of machinery and parts for the auto, construction and industrial equipment industries, Ingersoll-Rand scarcely noticed the recession. While competitors Caterpillar Inc. and Timken Co. lost \$404 million

and \$36 million, respectively, in 1991, Ingersoll-Rand's profits fell just 19%, to \$151 million. Last year's earnings are estimated to have bounced back by 5% to 10%, and analysts are projecting profits of about \$200 million for 1993.

Headquartered in Woodcliff Lake, N.J., \$3.7 billion (projected 1992 sales) Ingersoll-Rand is a splendid example of how, at its best, American industry has responded to the challenge of international competition. In the early 1980s the overvalued U.S. dollar cost Ingersoll-Rand a good piece of its important export business.

At the same time, oil prices collapsed, and Ingersoll-Rand counted on energy for over 50% of its revenues. In 1983 Ingersoll-Rand lost \$112 million, its first loss since the 1930s. A third of the work force was laid off. Remembers President James Perrella: "It was a traumatic experience."

But Ingersoll-Rand's management did not dither. To lessen dependence on oil, Black and Perrella diversified—not in a random fashion but in a way calculated to broaden their customer base. Today the energy industry accounts for 15% of sales, with the rest coming mostly from bearings and equipment for the auto industry (20% of sales), locks for the housing industry (10%), industrial tools (20%) and construction equipment (20%).

Recognizing that in many areas the high dollar meant that U.S. exports were no longer competitive, Ingersoll-Rand did what it had to do to save the business. It increased its manufacturing outside the U.S. Today 70% of Ingersoll-Rand's foreign sales are generated by products manufactured abroad, up from 30% a decade ago. Had the company not moved as fast as it did, most of this business would have been lost.



Ingersoll-Rand's Theodore Black
"We did our downsizing early," he says. But lean and mean did not mean chopping capital spending to the bone. Now rapid productivity improvements and two joint ventures with Dresser Industries promise rich rewards once the economy turns up.

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Ingersoll-Rand

While much of U.S. industry waited until recently before making really serious efforts to slash costs, Ingersoll-Rand did so early. "We did our downsizing early," says Black, a former Marine Corps pilot who joined Ingersoll-Rand in 1957 and was named chief executive in 1988. But mean and lean did not mean skimping on capital expenditures. With capital spending running at 136% of depreciation over the past six years, Ingersoll-Rand has been investing heavily in its basic businesses. As a result, productivity has increased—sales per employee are up 64% since 1983.

Ingersoll-Rand was also early in recognizing the need to combine operations with other companies in industries afflicted with overcapacity. In 1986, with the oil equipment market in the doldrums, Ingersoll-Rand and competitor Dresser Industries combined their production of turbines and some compressors into a joint venture in which Dresser holds 51% and Ingersoll-Rand the remainder. Within a year Dresser-Rand had broken even and was growing fast. By 1991 sales had climbed 69%, to \$1.2

billion, profits to \$80 million.

A new joint venture with Dresser Industries, in which Ingersoll-Rand holds 51%, produces industrial pumps. With sales of about \$900 million, it is one of the world's largest pump manufacturers. Ingersoll-Dresser Pump could add over 40

With debt only 18% of capitalization, Black hints at a \$1 billion acquisition to expand in Mexico, Europe or the former Eastern bloc.

cents a share to Ingersoll-Rand's bottom line within five years.

Thus Ingersoll-Rand's lack of industrial glamour hasn't tarnished its stock price. Recently trading at a near record 31 a share, its stock sells for 20 times 1992's estimated earnings of \$1.55 a share. Why the hefty P/E? Having come through the recession so comfortably, the company figures to do well as business improves. The auto business and even the housing

industry are showing signs of recovery, and the outlook is good for companies that make productivity-enhancing machinery like Ingersoll-Rand's automated production systems and hand-held metal grinders. Moreover, if, under the new Administration, Congress votes for a pork-rich public works program, Ingersoll-Rand's construction equipment sales will benefit handsomely.

Surveying the world, Black, now 64, says he wants to expand in the fast-growing Mexican, European and former Eastern bloc markets. Ingersoll-Rand's German sales, for instance, have tripled since unification. Black hints he may make a big acquisition or two—with long-term debt only 18% of capitalization, financing would not be a problem. "I think we could stretch ourselves to a \$500 million—maybe \$1 billion—acquisition if we wanted to," Black says. But not just anything. "You have to be very careful not to make some quantum jump for which you pay a lot but never get your money back," he says. Judging from the record, there isn't much chance of that happening here. ■



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Are women who slaughter their mates killers or are they just poor victims of a newly fashionable psychological syndrome?

Women who kill

By David Frum

THROUGHOUT the recent holiday season, the lawyers at the Los Angeles firm of Gibson, Dunn & Crutcher were doing their little bit to spread peace and goodwill—by helping women who killed their husbands to get out of jail.

Some 60 lawyers at ten elite California law firms have filed petitions asking Governor Pete Wilson to commute the sentences of more than 30 Golden State women convicted of murder. To the lawyers involved, the petitions are charitable acts on behalf

of a “particularly misunderstood and disadvantaged group of women.”

Who are these victims of misunderstanding? Women who have killed their partner.

The lawyers seeking clemency distribute a fact sheet. It tells a horrible story: One-third of the women who seek help in hospital emergency rooms say their injuries were inflicted by their husbands or boyfriends. Four million women a year are severely assaulted by their mates.

Get it? Women who kill are just

defending themselves.

That isn't what the law actually says. One way to beat a murder charge is to show that a homicide was an act of self-defense. In California the requirements of self-defense are strict: The defendant must prove she felt she was in imminent danger, that her feeling was reasonable and that killing her batterer was the only way to prevent that danger.

Those rules were defined in *People v. Aris*, the 1989 California Court of Appeal decision that found that Brenda Aris had been properly convicted of second-degree murder for shooting her brutal husband in his sleep. (At the time of the shooting, he was high on drugs and alcohol and had just passed out in the midst of a particularly gruesome beating.) The court ruled: “The law cannot allow her to shoot her husband instead of, as was the case here, inconveniencing her out-of-state aunt by moving in with her or leaving her husband and firmly refusing to take him back.”

To some feminists the court's view that she should have just left was Neanderthal. They argue that courts should adopt a special understanding

WHOSE ASSETS UNDER MANAGEMENT ARE GROWING BY A BILLION DOLLARS A MONTH?

of self-defense for battered women who kill. These women, they say, suffer from "battered woman syndrome," a stress disorder that calls into question what they say is a male-oriented law of self-defense.

A woman who suffers from battered woman syndrome is said to have learned to be passive. So, if she returns again and again to a husband who abuses her, she is not to blame: The syndrome is at work. Assume she finally shoots him as he lies drunk and unconscious, since she fears for her life when he awakes, even though he presents no imminent danger to anyone else. She still ought to enjoy the protection of the law of self-defense, it is argued, because the syndrome has made her more sensitive to danger.

Interestingly, the same court that rejected Brenda Aris' appeal did agree that expert testimony on battered woman syndrome should be admissible in murder cases. And, up to a point, who could disagree? Denuded of its pseudoscientific garb, some version of battered woman syndrome may have been at work in the courts for years, motivating jurors to acquit women who kill violent men—and

Jean-Francois Allaux



not only women: New York's Bernhard Goetz proved that American juries can be remarkably sympathetic to defendants who shoot to protect themselves.

But where do you draw the line? It's one thing to rely on the decent instincts of 12 randomly selected Americans to know when someone who has not strictly followed the rules of self-defense should nonetheless go free. It's quite another to swallow trendy legal theory undiluted—as former governor Richard Celeste of Ohio and Governor William Schaefer

of Maryland found out.

In late 1990, just before leaving office, Celeste commuted the sentences of 28 women who had been convicted of crimes, including murder, directly related to their having been battered. Three months later, Governor Schaefer released 8 women convicted of killing or assaulting their partners. At first the decisions were widely hailed. Then troubling facts began to bubble up in some cases that suggested the possibility of premeditated murder. At least one of the Ohio women had allegedly contracted to murder her mate. And one of the Maryland women, Bernadette Barnes, had hired an assassin to kill her husband.

Kathryn Beck, an attorney helping to coordinate the clemency petitions, insists her group has "tried to do as complete a screening as possible." Maybe, but in these days when it is fashionable to blame the victim for the crime, let's hope that California Governor Wilson doesn't get so carried away with the holiday spirit that he fails to examine the petitions more soberly than his Ohio and Maryland counterparts took the trouble to do. ■



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Fabless chip companies have engineers and marketers but no factories. Briefly they flourished, but they overlooked something.

Score one for vertical integration

By Julie Pitta

ALMOST UNNOTICED in last year's headlines about how the U.S. semiconductor industry has gained ground against the Japanese in sales volume was one bit of curious news: A lot of the smaller chip companies missed the revival. The leaders in the turnaround were old names like Intel and Motorola, not newer ones like Chips & Technologies, Altera and Weitek.

The new generation of chip producers was spawned in the mid-1980s, when the U.S. chip industry was mired in its worst slump. The newcomers' strategy was fabless production. Meaning: Don't invest in costly fabrication lines to compete with chipmakers in the Far East. Instead, capitalize on U.S. strengths in design and marketing. Let the Japanese make the stuff; we'll design it and reap most of the profit.

Why not? The fashion business works well that way. Liz Claiborne's designs may be American as apple pie, but much of the stuff is made abroad, mostly in Asia by Asians. Since a chip fabrication plant can cost about \$500 million to build, dispensing with manufacturing made sense.

For a while the fabless companies thrived, benefiting from the low cost of entry. Chips & Technologies, the most successful of this group, reached nearly \$300 million in sales in 1990. Smaller companies like Weitek and Altera Corp. reported handsome profits.

But these fabless ones were left



LEFT:
Arthur Collmeyer,
Weitek chairman
and chief executive
**No factory meant
losing
a big customer,
Sun Microsystems.**

behind in the latest surge. Why?

Companies that live by low entry barriers also die by them. Chips & Technologies made a resounding success of its first business—selling logic chips that connect a personal computer microprocessor to peripherals like disk drives. But if the business was cheap to get into, others could get in,

too—and did. By 1989 there were more than 30 tiny outfits making chip sets similar to those sold by Chips.

For Intel, the giant integrated chip firm, Chips & Technologies' early success was too good to ignore. Intel incorporated the functions that had been performed by Chips products in its next microprocessor, the 386.



ABOVE:
Altera President Rodney Smith

Are its glory days behind it?

LEFT:
Chips & Technologies Chief
Gordon Campbell

**Caught in the cross fire between
Intel and Advanced Micro Devices.**

money, hiring a fabricator is not so easy. AT&T announced last spring that it would no longer fabricate chips for outsiders. In the process, it even cut off Sundisk, a customer in which AT&T owns an equity stake.

Intel will open a new plant by mid-year that will make up to 20,000 wafers a month, each with several hundred chips. Even so, Intel has discontinued fabricating chips for others.

Altera Corp., which designs and markets programmable logic devices, attempted to assure itself of fabricating capacity by buying 25% of a Round Rock, Tex. plant owned by Cypress Semiconductor. But Cypress had trouble getting the plant running, and little Altera paid a price. The problem took nearly a year and a half to resolve.

"We were constrained in our ability to ship products for all of 1991," says Altera President Rodney Smith. Altera remains solidly profitable, posting \$9.5 million in net income on revenue of \$75.4 million for the nine months ended Sept. 30, but its sales have flattened and Altera's stock has dropped from a peak of 36 early last year to a recent 11.

"The little guys are getting squeezed," complains Weitek's Collmeyer. "The big guys are keeping their plants to themselves." What looked like a smart, low-capital way to do business, it turns out, is not necessarily a viable way to do business in the long run. ■

Never mind, Chips would clone Intel's lucrative 386; in 1991 it sent its knockoff design to Texas Instruments to be fabricated. Chips had to wait 14 weeks to get the first chips off the TI manufacturing line. In that short span, prices for 386 microprocessors collapsed, from an average of \$112 to \$60. Chips had missed the best part of the market.

"It's difficult to do battle with the giants and win," sighs Gary Martin, a vice president at Chips & Technologies. "We were buying wafers at a given price, but didn't know what the selling price would be a couple of months later." In the year ended June 30, Chips & Technologies lost \$57 million on revenues of \$141 million.

Weitek has a similar tale. It started out making math coprocessors, which are specialized calculators that go in engineering workstations. Weitek's

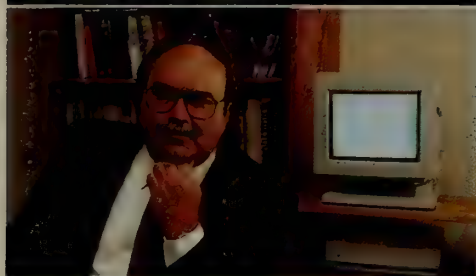
bestseller was a coprocessor for Sun Microsystems's Sparc workstation. Between 1985 and 1990 Weitek's sales more than tripled, to \$58 million, with Sun accounting for more than 40% of the volume.

Then Sun decided it wanted to design all the chips itself rather than depend on an outsider like Weitek. If Weitek could be a fabless chip company, then so could Sun. Sun farmed out fabrication of its math coprocessor to Texas Instruments. "We could have stayed in the equation had we owned a factory," says Weitek's chief executive, Arthur Collmeyer. In fiscal 1991 Weitek posted a loss of \$5 million on sales of \$39 million.

When chip manufacturing capacity was sitting idle and the industry was losing money, finding a partner to manufacture a new design was easy. Now that the industry is making more

A happy story about Russian software

BY JOSEPH R. GARBER



Joseph R. Garber is a management consultant with A.T. Kearney Inc. in Redwood City, Calif.

NAUM STAROSELSKY is that rare creature, a Soviet scientist who successfully turned capitalist, but he had to come to the U.S. to do it. After 16 years as a Soviet expert on turbine controls, he managed, in 1974, to get his exit visa. Settling in Des Moines, Iowa he started Compressor Controls Corp.

Staroselsky's particular expertise revolves around compressors—big-ticket, industrial-strength machinery used to pressurize and move gasses in refineries, gas pipelines and steel mills. Despite their size and power, compressors are finicky beasts. Any number of conditions—a change in gas mix, a fluctuation in power—can result in what's called “compressor surge.” In a matter of milliseconds, the flow of gas reverses itself. What's moving the right way suddenly starts to move the wrong way.

Naum Staroselsky realized that what goes on in the guts of a compressor can be mathematically modeled. It's all physics. The variables are many, and the interactions complex, but ultimately the conditions leading to a surge can be described with a handful of equations.

That was an important discovery.

At a minimum, the surge will bring a production line to a screeching halt for a few minutes. Worst case, the surge will mangle the compressor so badly that it takes days to repair. When that happens, a factory might shut down.

Staroselsky, joined by steadily growing numbers of talented Soviet refuseniks—graduates of such schools as the Leningrad Polytechnical Institute—tackled the task of putting his discovery into a black box. What can be reduced to equations can be programmed in software. The software can control compressor hardware—valves, mainly. Surges can be stopped—and, as a dividend, compressors can be run closer to the redline, increasing efficiency and output.

By 1978 Staroselsky and his colleagues had perfected their first surge-controlling machine, but kept upgrading it. The latest version, announced in August, combines some off-the-shelf temperature and pressure sensors, a British-made Transputer microprocessor and a tiny chunk of software that fits into a mere 25 kilobytes of memory—less than you would find in a hand-held electronic organizer. For this package—and, more important, for all the know-how and on-site engineering that goes with it—Compressor Controls gets revenue of \$60,000 to \$100,000 per order.

How can anybody get that kind of money for an electronic box? Because that box pays for itself in short order. I and my colleagues recently spoke to a large number of Staroselsky's customers. Not one of them has experienced a minute's worth of surge-related downtime since installing a Compressor Controls system.

On a scale of 1 to 5, 83% of those customers rated the company's products as 5. No fewer than 98% of the customers, having already bought not inexpensive packages, want to buy more. The overwhelming majority of the customers to whom we spoke could not name Compressor Controls' competitors.

Any complaints? Besides complaining about Compressor Controls' price list, a handful of customers aren't all that happy about having to deal with heavily accented engineers who sometimes do not understand how American business operates. But by almost any standard the business is a rousing success, proof that Soviet-trained people can indeed cut it in a capitalist society.

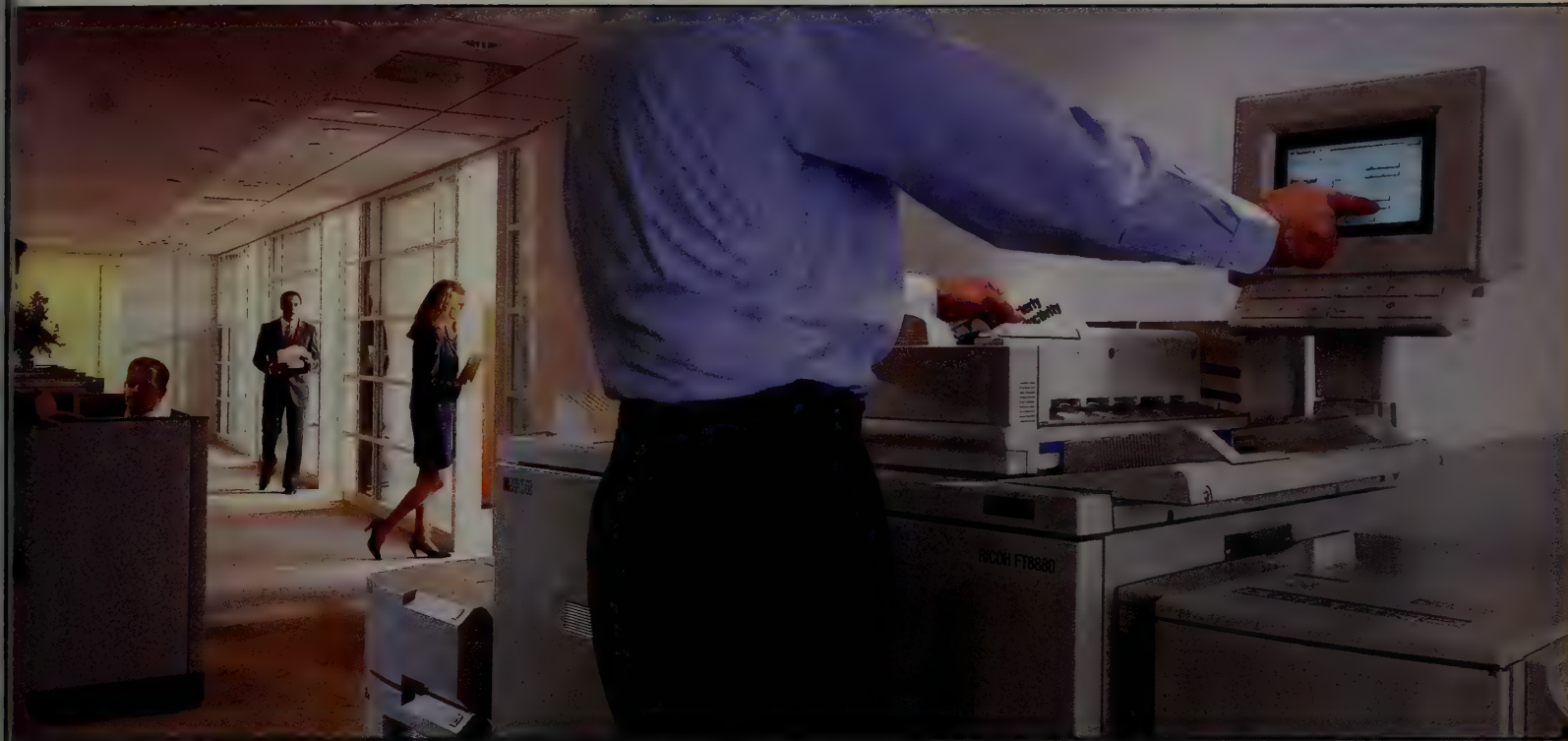
First, Compressor Controls focused on a software niche small enough not to attract a lot of competition but important enough to justify a large price. This is not software that controls blinking neon lights; it is software on which hangs millions of dollars' worth of machinery.

Second, Compressor Controls delivers the goods. The most widely used version of the system samples conditions within a compressor 200 times a second; the new generation product runs at four times that rate. The company's 18 field engineers transform the business from one of selling mere boxes into one of selling engineering services. Quality systems and quality services are an unbeatable combination.

No, you can't buy stock in Staroselsky's enterprise. It has already all been bought, for \$35 million, by Roper Industries, a Commerce, Ga.-based manufacturer of pumps and industrial controls. (Roper itself went public last year and trades over-the-counter.) When the buyout was announced, Roper's stock took a nice bump upward. Staroselsky, 59, and his colleagues have every incentive to deliver on the market's expectations of an earnings boost to Roper from the acquisition. Their deal with Roper involves a fair amount of stock.

Let's hope there are more entrepreneurs where Staroselsky came from. Such entrepreneurs could be the salvation of Eastern Europe and a boon to the whole world.

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DV M57 486SLC2		486SLC2 50/25 MHz	212MB	8MB expandable to 16MB	Yes
M77 486		486 SX 33 MHz	212MB	8MB expandable to 32MB	Yes
M77 486DX2		486DX2 66/33 MHz	212MB	8MB expandable to 32MB	Yes

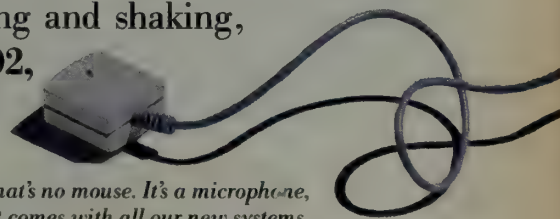
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COMMENTARY BY PETER HUBER



Peter Huber, a senior fellow of the Manhattan Institute, is the author of *Galileo's Revenge: Junk Science in the Courtroom* (Basic Books).

THINK OF IT as a hundred-billion-dollar metaphor. "The bottleneck" is the twisted pair of copper wires that runs from your telephone through the local exchange and on a mile or two before reaching out into cyberspace. You can't carry phone calls from Seattle to Miami without passing through the bottleneck. You can't provide home banking or airline reservations, either. Which means that local telcos must be regulated, legislated and litigated into submission, so that they won't "leverage" the bottleneck into other markets. That, at least, is what various lobbyists, regulators and federal judges have earnestly argued now for many years. The rules for competition in a huge array of telecommunications markets are still based on bottleneck logic.

But people who back their convictions with money, rather than legal paper, have been placing some very different bets lately. They know the well-dressed bottleneck theory is being mugged by a vicious gang of new facts.

In early November AT&T announced what for all practical purposes is an acquisition of McCaw Cellular. A few weeks later, Denver's Tele-Communications Inc., the nation's biggest cable TV company, announced plans to supply up to 500 digital video-size channels to its 10

million subscribers within a few years. Meanwhile, TV Answer of Reston, Va. is pressing ahead with a plan to put a radio on top of your TV set that will let you order a pizza or balance a checkbook from the comfort of your couch, with nary a telephone.

My views about all this are undoubtedly biased: I've done consulting work for a law firm that represents the regional Bell companies, and I recently published a study (*The Geodesic Network*, 1993) that analyzes these issues at length. Still, the facts seem to speak for themselves.

We are seeing, first of all, a massive repositioning of wire and radio. When the Bell breakup was approved in 1982, MCI was feverishly building a microwave network. Government lawyers concluded that the long distance, radio-based market was competitive, while the local, landline network remained a monopoly. AT&T was carved up accordingly. But even as the ink was drying on the divestiture decree, the microwave towers were being dynamited to the ground. The long distance network was being taken over by fiber optic glass.

While long distance radio facilities were giving way to new wires, local wires were being challenged by new radios. In 1984 cellular systems served only 92,000 customers. Make that 10 million today, and growing at 20% or more a year. Digital radio will soon replace analog technology in existing cellular networks, and this will bring about a tenfold increase in carrying capacity. Soon to come: a new generation of low-power cellular called "personal communications services," or PCS. The Federal Communications Commission has already authorized over 150 experimental licenses to test PCS, and has floated a proposal to license either four or five providers of PCS in every geographic market. Monopoly? Bottleneck? Hardly. The current cellular

carriers (two per market) use a total of 50 megahertz of spectrum; the FCC has proposed allocating 220 megahertz of new spectrum for PCS and other new radio technologies. PCS will probably penetrate 40% of the U.S. residential market by the end of the decade.

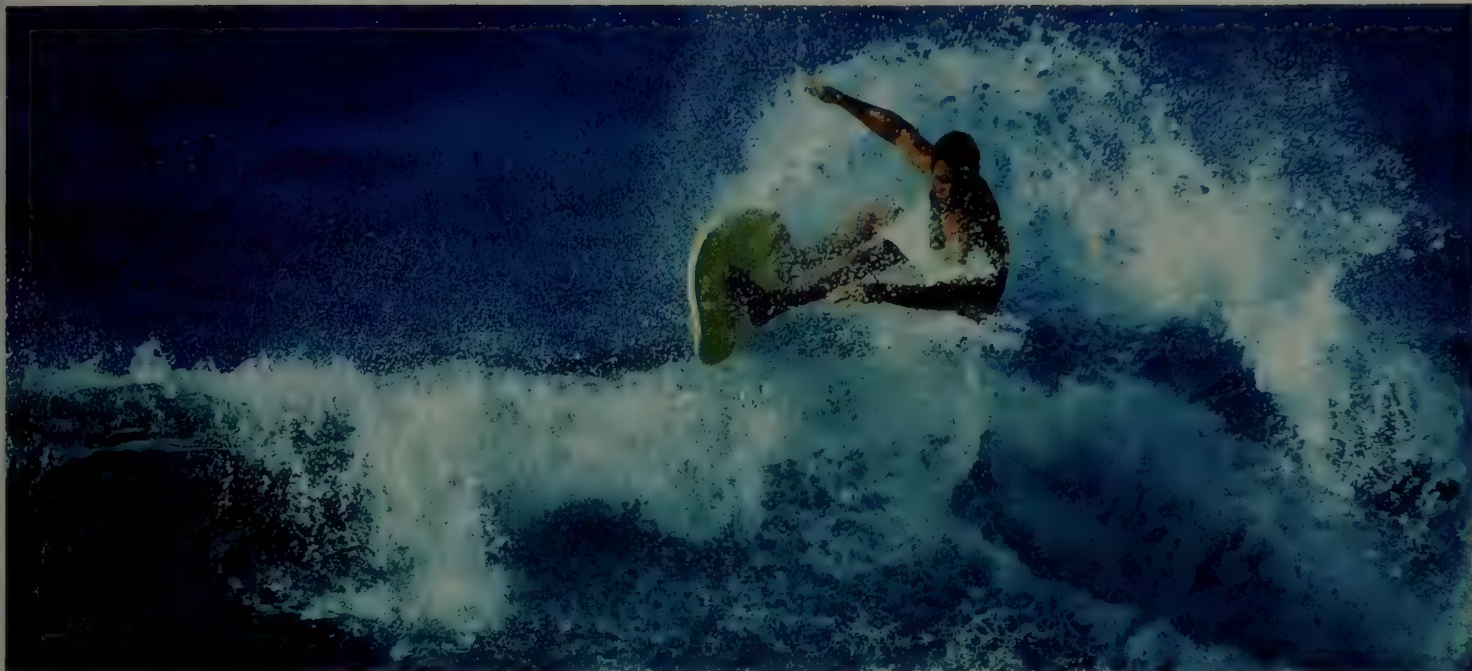
This new competition in local telephony could spell real trouble for anyone assuming that the telcos still have monopoly power. Look at the economics. The established cellular carriers have invested about \$10 billion so far in plant and equipment (excluding what they paid for licenses), or about \$1,000 per subscriber. Digital radio promises a vast increase in capacity, at modest additional cost. PCS will be even cheaper. By comparison, it costs at least \$1,500 to install a copper connection, and those costs aren't declining at all. GTE recently announced that in Quitaque, Tex. it would replace wires entirely with an all-digital radio service.

AT&T understands the competitive implications of these developments as well as anyone. AT&T in 1991 won licenses to conduct PCS trials in Boston, Los Angeles and Atlanta, and recently applied for exclusive ("pioneer") licenses to serve the country's 70 largest urban areas. AT&T cheerfully noted in its application that it is well positioned to deploy a PCS system, since it has on hand a collection of land, towers and buildings, once used for microwave links but not yet dynamited. Why not use them for the new cellular format? The McCaw deal, of course, is another end run around the local telcos.

TCI's 500-channel cable is the largest of the straws being rammed through the neck of the old bottle. Cable now passes over 90% of U.S. households; cable companies are leading investors in PCS systems; and AT&T (again) has been a key player in developing the digital cable technology behind TCI's 500 channels.

With cataracts of new cable capacity pouring into the local loop, and new-generation wireless systems surging all around, the neck of the old bottle isn't what it used to be. Sooner or later, policymakers will have to take a new look at their monopoly theories. The old metaphor is being fast overtaken by technology. ■

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Frequent flier programs really started something. Now the airlines, hotels and credit card folks shower customers with cash, annuities, computers and car discounts.

The great giveaway

By Brigid McMenamin

THERE'S A freebie war raging among airlines, hotels, car renters and credit card issuers. Examples:

If you fly business class on Aer Lingus from New York to Europe and back, you will get a free coach ticket good for a round trip to and from Ireland or Britain. Fly business class twice and you will get a check for \$500. Make three trips and you collect \$1,000. Of course, you do have to stop in Ireland, which adds about 2½ hours to the New York/London run, but you can spend the time browsing or shopping in a duty-free shop.

Fly South African Airways first or business class to Africa and your spouse goes along in the same class for half price.

Until Mar. 31, 1993, every time you fly Virgin Atlantic Upper Class from New York to London, you earn enough frequent flier miles for a round-trip, economy seat to London.

Hotels are heavily into giveaways. At The Peninsula Beverly Hills, for example, every guest gets a gift certificate worth \$50 at Carroll & Co., a chic men's store on Rodeo Drive.

Hyatt awards its club members five points for every dollar spent under a Hyatt roof. The points are redeemable for free nights at any Hyatt hotel in the world. Rack up 300,000 points (there's no time limit) and you can get a ten-day stay at the Grand Hyatt Wailea on Maui with all kinds of goodies thrown in, including two free round-trip airline tickets, free car and

free breakfast.

Stouffer Hotels and Resorts will stuff savings bonds in your suitcase if you stay with them often enough.

Holiday Inn Worldwide's Priority Club members get 25 points every time they rent a Hertz car at full rates, and through 1993, they get 1 point

least one from General) of a compact or larger Chrysler car. Fifty rentals is good for a \$1,000 U.S. Savings Bond—in addition to the frequent flier mileage awards.

If you have a MasterCard issued by GM, you get a nickel credit for every dollar you spend, up to a maximum of \$500 a year. That credit can be applied to the purchase or lease of any new GM car (except the Saturn). You can let the credit ride for up to seven years—a possible \$3,500 total savings on a new GM car. Two million people have signed up for the card.

Here's another bonus for consumers: Looking for a novel way of adding to your retirement nest egg? An outfit called START ("Save today and retire tomorrow") funnels a percentage

of the retail price of a variety of products and services into a retirement account for the buyer. Vendors now include MCI, Club Med, Hertz, General Electric Capital, Eddie Bauer and Spiegel, among others. The figure is 1% on the first \$1,000 you spend each year; 3% on the next \$1,000, and 6% on anything over \$2,000. So if you spend, say, \$10,000 a year on products and services from the vendors mentioned above, you'll generate a credit of \$520. At an industry average of about 8%, investments of \$520 a year over ten years would produce a nest egg worth over \$7,500. The more you spend, the more you save.

It's truly wonderful, this consumer society.



for every dollar spent on a room at a Crowne Plaza or Holiday Inn. Awards include a three-day tour of castles in the Bavarian Alps (18,400 points), three nights in Cancun, Mexico (11,500 points), a Magnavox 386SX computer (29,325 points), a Canon 8mm Camcorder (20,550 points).

Every time you rent a car from Avis or Thrifty or spend a night at a Sheraton Hotel anywhere in the world, you can rack up ITT Sheraton Club International points.

Besides frequent flier miles, some car rental firms have additional incentives. Through Mar. 31, Dollar and General award a \$50 U.S. Savings Bond for every four rentals (with at

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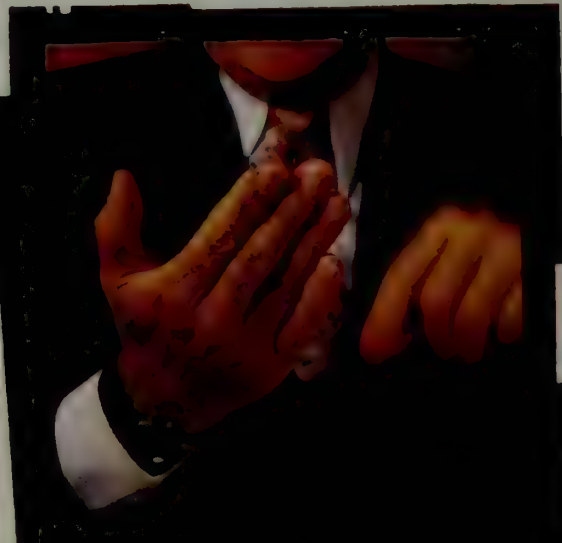
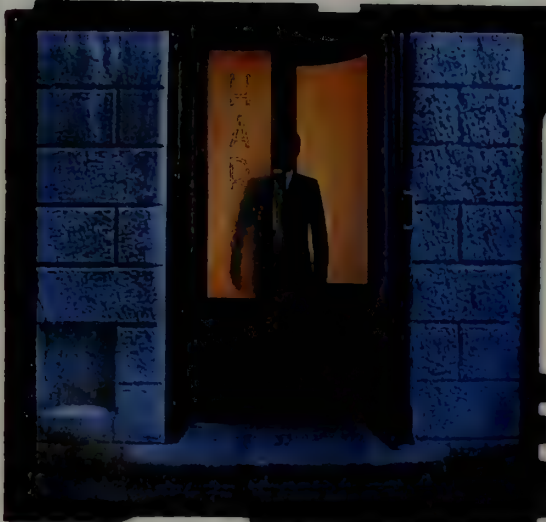


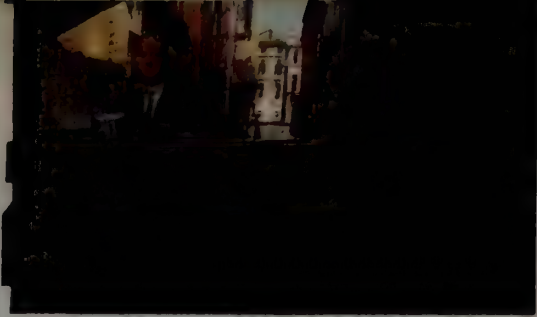
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Do you know me?[®]





In 1931, my father opened Harry's Bar in a place my mother found. I believe this place showed his genius for elegance and for simplicity. It was a simplicity of spirit and lightness that never imposed anything on the customer. Harry's Bar became quite famous, but my father always said that

that a good martini should be mixed 15 to 1—the same ratio Field Marshal Montgomery insisted on when fighting the enemy. So when he swung through the door of Harry's Bar he would call out, "Give me a Montgomery."

Hemingway traveled often and he valued

“*Ernest Hemingway named one of my father's drinks. My father had a few names for Hemingway, too.*”

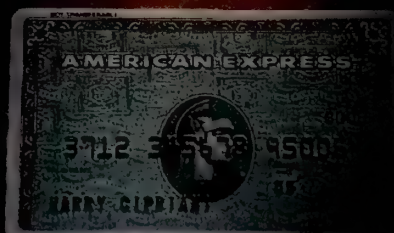
people would come not because we were famous, but because we gave them our best.

Ernest Hemingway would often come and stay for hours. He came because it was a comfortable place, and because everyone was treated well here. Hemingway loved martinis. One day he told my father

his haunts. I believe people who appreciate a place like Harry's Bar are inclined to visit more places and to see more of the world.

I think that having the American Express® Card, the world becomes smaller.

Harry Cipriani
Owner, Harry's Bar
Venice, Italy



Don't Leave Home Without It.®



If you buy something in a commercial art gallery, make darned sure you love it, because it might not have much—if any—resale value. Despite what the salespeople may tell you.

Resort art

By Christie Brown

THE WALLY FINDLAY GALLERIES is a very pretty shop, situated on very pretty Worth Avenue, in very pretty Palm Beach, Fla.

The gallery sells very pretty pictures, too, for very pretty prices. Take the sofa-size Paris street scene painted by Constantin Kluge. Who? "Kluge is

one of the best investments we have," a salesman at the gallery assures us. "And," he confides, "he's about to die. He's in his 80s." The price for Kluge's dreamy, pastel-colored scene: \$30,000 by check, 10% less in cash.

Farther along Worth Avenue is the Circle Gallery, which also caters to the

monied resort crowd. Prominently featured is a brightly colored print, entitled "Odalisque." It is reminiscent of Henri Matisse—whose works are very hot at the moment—and was done by Judith Bledsoe. One of an edition of 300 prints, "Odalisque" sells for \$1,200 and can be purchased on the installment plan. Sixty dollars a month, for 20 months, interest-free. "Bledsoe is very well known," counsels the salesman. "Her paintings are priced at up to \$20,000."

Well, yes and no. One knowledgeable auction appraiser, formerly with Sotheby's, estimates that Judith Bledsoe's works would fetch about 10% of their retail prices if sold at auction. That's quite a spread. Constantin Kluge? Of the handful of Kluge paintings that were sold at auction from 1990 to 1992, the most expensive went for just \$7,500.

"We get hundreds of calls from people who say they bought a print by Salvador Dali, LeRoy Neiman, Peter Max, Vasarely, and they want to know what can they get for those pieces now," says Leslie Hindman, owner of Chicago's Leslie Hindman Auctioneers. "We say under \$1,000, and the person flips out and says, 'I paid \$7,000 for it and have a certificate of authenticity, and I was told it was going to appreciate in value.'"

Welcome to the world of commercial art galleries. Granted, the line between fine and commercial art is not always easy to draw, and to some collectors hardly matters. But the originality, esthetics and historical significance of some works deem them fine art in the eyes of museum curators, art critics, certain dealers and collectors. Commercial art lacks that consensus. But if you want to decorate a wall or match your decor, there's nothing wrong with it. Just don't think its value will hold, let alone increase. Think of it rather as fairly expensive wallpaper.

Commercial art galleries tend to be clustered where the rich gather, often cheek by jowl with fine art galleries. Wealthy resort towns are ideal spots: Worth Avenue in Palm Beach, Rodeo Drive in Beverly Hills, Canyon Road in Santa Fe, Lincoln Street in Carmel. You'll also find them along Peachtree Road in Atlanta, Prospect Street in La Jolla, North Michigan Avenue in Chi



Commercial art on display at Simic Galleries on Rodeo Drive
Pretty art at pretty prices. But don't expect appreciation.



Featured offerings of the Hanson Art Galleries on Rodeo Drive
Some dare call it art—and who is to say it isn't, if you like it?



Commercial art galleries in Palm Beach
Run if you hear the word "investment."

cago and East 57th Street in New York City.

LeRoy Neiman, who gained popularity in *Playboy* magazine in the 1960s, is the granddaddy of commercial artists, famous for his bold, brightly colored works featuring gamblers, girls and sporting events. His paintings retail at anywhere from \$5,000 to \$300,000. Neiman's limited edition prints—about 100,000 are in circulation—sell at commercial galleries around the world for \$2,000 to \$20,000, retail.

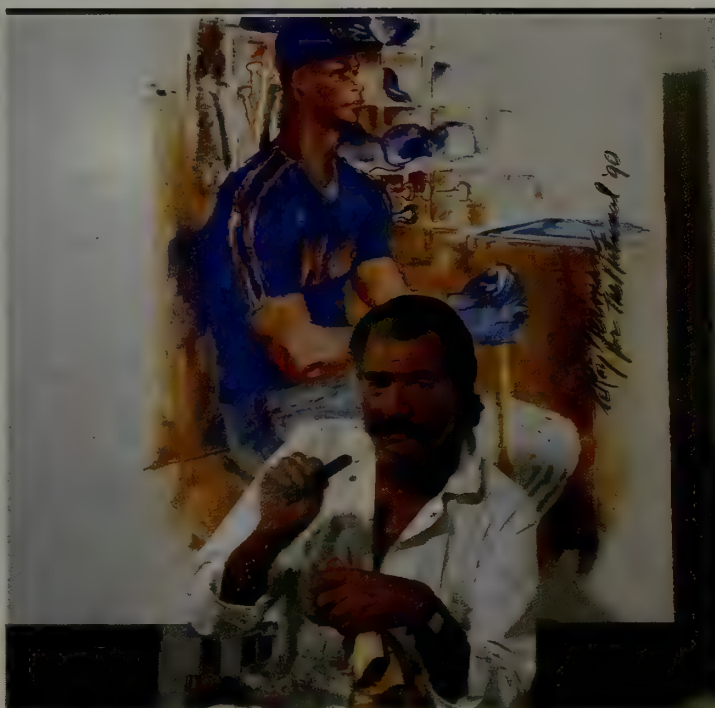
"People bring in their Neiman paintings and say they paid \$300,000 for it and what can we get," says Scot Levitt, head of paintings at Butterfield & Butterfield auction house in Los Angeles. "After we give them an auction estimate of \$2,000 to \$4,000, they don't sell."

According to *Gordon's Print Price Annual*, which tracks auction results, of five Neiman prints sold at auction in 1991, prices ranged from \$220 to \$1,100—maybe 5 to 20 cents on the original price dollar.

Other surefire money-losers are works by celebri-

ties. Paintings by actor Tony Curtis, singer Donna Summer and comedian Red Skelton sell in Las Vegas galleries for up to \$200,000 each. Says Laura Nagle, vice president at Butterfield: "Someone called me the other day who was thinking of buying an Anthony Quinn print for \$2,000 and wanted an auction estimate. I told her basically they sell for under \$500. It could be \$10."

Henry Groskinsky



LeRoy Neiman and his Darryl Strawberry

Very popular, very expensive. But what will it fetch on resale?

What about trading back unwanted paintings? Some, like the Simic Galleries on Rodeo Drive, say they will take back paintings in trade. Most often, however, galleries mumble regrets. When *FORBES* asked about reselling the \$30,000 Kluge, the Wally Findlay Galleries murmured that contracts with many of their artists preclude taking back art.

Gilbert Edelson, legal counsel to the Art Dealers Association of America, has these pointers to determine the quality of a gallery and the art offered for sale:

1) Run if you hear "investment."

2) Keep running if the dealer says a painting is worth x, but he will sell it to you for half x.

3) Beware artwork sold with papers of authenticity. A fine arts gallery will give you an invoice, which is all the legal proof needed for a painting and artist.

4) Ignore appraisers chosen by the gallery.

Questions to ask a salesman about a supposedly well-known artist:

1) Which museum has the artist shown in?

2) Have the artist's works ever sold at auction at Christie's or Sotheby's, and if so, when and at what prices?

3) Are there any books or reviews of the artist's works in publications like *Artforum* and *Art in America*?

De gustibus non disputandum est—if you like something and can afford it, why not buy it? But don't just buy on the word of a salesperson you don't know.

"Garbage in your blood"

CENTIMILLIONAIRE William Simon seems to have changed his vision. The former Treasury Secretary used to speak boldly about building a Pacific Rim merchant banking empire. To that end he bought a number of West Coast banks and savings and loans and opened a Hong Kong office. But those plans stalled in 1991 after Simon broke up with partner Gerald Parsky (FORBES, Mar. 16, 1992).

Recently, Simon, 65, has made two investments that show a renewed interest in U.S. assets, particularly small companies in small towns and cities. In October he paid \$8 million for five Southeast radio stations in partnership with radio investor Morton Hamburg and Franklin Holding, a closed-end investment company that trades on the Amex.

Documents filed with the Securities & Exchange Commission also show that this fall Simon paid \$5 million for convertible debt and warrants that could give him over 10% of Allied Waste Industries, a Houston-based garbage hauler and landfill operator selling at 5¼ over-the-counter. Apparently it was Simon's 39-year-old son John Peter who suggested the Allied investment, after spending several months studying the garbage industry. Allied's 1992 revenues ran only about \$37 million, but the company is growing quickly. In the last

two years it has acquired seven landfills and 16 garbage collection companies mostly in small towns in Illinois, Arizona, New Mexico and Nebraska.

Allied's chairman is Roger Ramsey, who helped found garbage giant Browning-Ferris Industries and went on to become a successful venture capitalist. Ramsey says he expects Simon to convert his debt and warrants to equity and stay with Allied for the long haul. "Once you get garbage in your blood," says Ramsey, "it's hard to get it out."

The surprising Prize

UNLIKELY EVENT number one: Daniel Yergin's 877-page tome, *The Prize: The Epic Quest for Oil, Money & Power*, became a big bestseller two years ago. So far 382,500 copies have been sold in the U.S. alone.

Unlikely event number two: *The Prize*, which chronicles the heroes and scoundrels who created the world's biggest business but refrains from populist bashing of the oil industry, won a Pulitzer Prize.

Third surprise: Yergin reports that despite the lack of cheap thrills and sex, the book generated 22 film proposals. This month the Public Broadcasting Service is airing an eight-hour documentary based on the book.

Yergin, 45, is president of the Massachusetts-based economic consult-

ing firm Cambridge Energy Research Associates. He hopes the PBS show will help drum up interest in his next book, which will address the clash between industry and environmentalists. "Right now, the two debates go right past each other," Yergin says. "Last month, within 24 hours, I went to an environmental conference and



Historian Daniel Yergin

Even Hollywood sought "The Prize."

an energy conference. They had two completely different visions of reality."

Yergin is no knee-jerk environmentalist. He tends to favor market incentives over the kind of command-and-control solutions demanded by the more radical enviros. "Democratic institutions don't function very well without economic growth," Yergin warns. "These issues [growth versus the environment] will be solved not with a myriad of regulations but with investments in technology. So the question is: How do you tie a return to those investments, so that people want to make them?"

What about Yergin's own return on *The Prize*? "I worked on it seven years," he laughs, "and I've made less than a top Washington lawyer makes in a year." But the movie proposals are still coming in. —TONI MACK

Back in charge

IN 1970 Thomas Murdough founded Little Tikes, which makes polyethylene backyard toys and climbing structures. The company grew nicely, but in 1984, figuring he needed more



Rob Kimmonth

Former Secretary of the Treasury William Simon
Garbage in, money out?

Toymaker Step 2's founder, Thomas Murdough **Rubbermaid rubbed him the wrong way.**

Jack Van Arman



capital to expand, Murdough sold Little Tikes to Rubbermaid Inc. for \$50 million. He stayed on to run the company, and soon regretted the decision to sell.

"It turns out we never needed Rubbermaid's money," says Murdough, 53. "And I was spending all my time just keeping them [Rubbermaid executives] out of our hair."

Frustrated by Rubbermaid's demands that he sell his premium-priced Little Tikes products through Kmart and other big discounters, Murdough quit the company in 1989. Two years later, as soon as his noncompete expired, he formed Step 2, Inc., hired about 75 employees away from Little Tikes and began producing polyethylene toy vans, kitchens and storage chests just a few miles down the road from Little Tikes' Hudson, Ohio headquarters.

Step 2 sold out its Christmas inventory and Murdough says he did \$20 million total for 1992. That won't take anything away from Rubbermaid's Little Tikes, which should gross \$400 million for the year. But it's a pretty good start, and Murdough is gearing up for more. "I love the battle," says Murdough, who recently completed a new \$10 million plant. "And I love to win."

—CHRISTOPHER PALMERI

The good life

"I HAVE TWO PASSIONS in life—wine and cigars," says Marvin Shanken, the Falstaffian founder of New York City's M. Shanken Communications Inc. As publisher of the *Wine Spectator* and *Cigar Aficionado* magazines, Shanken indulges both passions shamelessly.

Shanken, 49, got into publishing in 1973, when he bailed out of his small Wall Street brokerage business and bought a beverage industry newsletter for \$5,000. He bought his flagship publication, the *Wine Spectator*, a few years later for about \$40,000. At the time it had 1,000 readers and was about to go under. Today the *Wine Spectator* has an audited circulation of 120,000.

Shanken says revenues for the magazine are close to \$11

million. He won't disclose profits, but they're big enough to fund a personal wine collection with somewhere over 15,000 bottles—including such gems as a 1784 Château Margaux, a 1931 Quinta do Noval Nacional and a 1945 Château Pétrus. "My accountant says, 'Don't you have enough wine?'" says Shanken. "I tell him, 'Of course I have enough wine—that's not the point.'"

Down the hall from the wine cellar in Shanken's office is his walk-in humidor. It contains about half of his 10,000-strong cigar collection—including hundreds of pre-Castro H. Upmanns, Montecristos and Romeo y Julietas, some worth as much as \$100 apiece. To turn this passion into a business, in September Shanken launched a new quarterly, *Cigar Aficionado*. Shanken says he originally shot for a circulation of 20,000, but for the just-published second issue, he guaranteed circulation of 100,000—a figure that surprises even Shanken.

"There will always be successful people with dough who are only interested in living the good life—but even I can't believe this is possible," says Shanken. "Sometimes I have to pinch myself."

—JOSHUA LEVINE

Deey-Ann Saunders



Shanken Communications' Marvin Shanken

"Of course I have enough wine—that's not the point."



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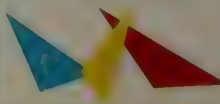
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FORBES
MAGAZINE'S
FIJI ISLAND

The year-end rally put stocks, especially the more conservative ones, squarely in positive territory. Barra's value-stock subset of the S&P 500 index delivered a total return (appreciation plus dividends) of 14.5% for the 12 months through Dec. 24. S&P members that Barra calls growth stocks gained only 9.1%.

But don't expect the happy days to last, opines growth stock manager Charles Allmon. Equities, says this bear in his *Growth Stock Outlook* newsletter, are trading at outlandish multiples of book value, earnings and dividends. He thinks the next downturn could trim \$1 trillion or more from the market's \$4 trillion valuation.

One of the few stocks that look attractive to Allmon is drug vendor Bristol-Myers Squibb, which sells for 17 times trailing earnings and yields 4.2%. A recent unfavorable product liability ruling, he says, has caused the stock to be oversold.

Special focus

Union Carbide's 95% total return makes it the best-performing Dow stock of 1992. This gain includes the July distribution of Praxair, its industrial gas business, plus Carbide's relatively generous 4.5% yield. The median Dow stock (Alcoa) gained 13%, while IBM generated the lowest return—down 37%, dividends included.

Best and worst blue chips

Stock	Total return*
Union Carbide	95%
Walt Disney	51
Allied-Signal	40
AT&T	39
McDonald's	30
IBM	-37
Westinghouse	-24
Merck	-18
Boeing	-16
Eastman Kodak	-12

*Since 12/31/91.

The overall market



Closeup on the market

Index or investment	2-week change	1 year ago	5-year high
Barra All-US index	0.9%	9.3%	-0.1%
S&P/Barra Growth index ¹	1.2	9.1	-0.5
S&P/Barra Value index ²	1.3	14.5	0.0
Dow Jones industrials	0.4	7.9	-2.5
S&P 500	1.2	8.6	-0.3
NYSE	0.9	8.4	-0.4
Nasdaq	1.1	19.1	-0.2
Amex	0.5	4.4	-5.9
EAFE ³	1.6	-6.7	-27.5
CRB index ^{4,5}	1.0	-2.2	-25.0
Gold ⁵	-0.4	-6.1	-33.7
Yen ⁵ (per \$U.S.)	0.2	-4.4	-24.5
Oil ⁵	3.1	7.6	-51.6

The best and worst performing stocks⁶

Best	Price	2-week change	1993 EPS ⁷	Worst	Price	2-week change	1993 EPS ⁷
Kendall Square Research	19 3/8	44%	\$0.64	MicroProse	7 1/4	-46%	\$0.90
Sapiens Intl	24 1/2	38	0.69	T-HQ	3 1/8	-42	0.51
Software Toolworks	7 1/4	35	NA	Quarterdeck Office Sys	4	-37	0.37
ISG Technologies	12 1/4	34	0.04	MTC Electronic Tech	18	-31	NA
Magma Power	29 3/4	32	1.81	Duty Free Intl	19 5/8	-29	1.63

The best and worst performing industry factors⁸

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Beverages	9.9%	22.4%	Tobacco	-5.9%	-8.1%
Aerospace	8.0	-5.3	Forest products	-5.9	59.6
Coal & uranium	7.5	-27.9	Pharmaceuticals	-3.7	-16.2
Telephone	5.4	18.3	Leisure, luxury	-3.5	28.7
Life insurance	5.1	13.6	Business svcs	-3.3	-7.8

Note: Data for period ending 12/24/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. ¹ Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. ² Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³ A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴ Index of 21 commodity futures. ⁵ Knight-Ridder Financial Information. ⁶ During the last two weeks. ⁷ Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. ⁸ Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

Foreign vs. U.S. markets



Developed markets

Market	Total return ²		
	3 months	12 months	P/E
Finland	18%	-10%	NM
Singapore/Malaysia	8	13	19
USA	5	17	23
Hong Kong	4	45	15
New Zealand	1	-5	14
Denmark	-15	-23	NM
Spain	-13	-17	9
Germany	-11	-2	14
Italy	-10	-18	21
Australia	-10	-18	20

Emerging markets³

Region	Total return ²		
	3 months	12 months	P/E
Asia	9%	-1%	NA
Latin America	-6	6	NA
Country			
Thailand	34	73	17
Korea	28	-18	19
Jordan	7	19	16
Greece	-32	-27	9
Argentina	-27	-32	14
Turkey	-24	-25	9

Last year, as in 1991, U.S. investors did better at home than abroad. Through the end of November, the Morgan Stanley index of 333 U.S. stocks was holding a 5% total return, against a 13% loss for its index of European, Australian, New Zealand and Far Eastern stocks. Exceptions among the larger markets: Hong Kong, Switzerland and Singapore/Malaysia, with returns of 40%, 10% and 7%. (Results assume stocks are bought and sold in dollars.)

Measured by the Hang Seng index, the Hong Kong stock market is nonetheless 18% below its 1992 high. Does

this make Hong Kong a bargain now? Not necessarily, says John Abbink, a vice president at Deutsche Bank Capital Corp. in New York. Abbink points to the political uncertainties of 1997 and high inflation as two major negatives.

Thanks in part to heavy buying by U.S. money managers, emerging markets fared better than developed ones in 1992. Elizabeth Morrissey, managing partner at Kleiman International Consultants, a Washington firm specializing in emerging markets, predicts healthy gains this year for stock markets in the Philippines, India and Pakistan.

Who's hot

Company/Country	Business	Price	3-month price change	P/E
Credito Italiano/Italy	banking	17½	62%	14
UMW Holdings/Malaysia	heavy equip	25½	39	14
Television Broad/Hong Kong	broadcasting, pub	1½	25	15
Hitachi Maxell/Japan	recreation	13½	25	33
Aisin Seiki/Japan	auto parts	8¼	22	24

Who's not

Company/Country	Business	Price	3-month price change	P/E
Ciments Francais/France	cement	20¼	-69%	5
Royal Trustco/Canada	financial svcs	2	-57	2
Hyogo Bank/Japan	banking	4	-56	54
Wiener Allianz Vers/Austria	insurance	116⅞	-46	17
Arjo Wiggins Appleton/UK	paper	2¼	-46	10

Cheap foreign stocks

Company/Country	Business	Price	Earnings	P/E
STET/Italy	telecomm	1½	\$0.15	7
Aegon/Netherlands	insurance	40½	4.95	8
Veba/Germany	utility	218¼	18.14	12
Michelin/France	tires	32⅞	2.03	16
Matsushita Elect Works/Japan	building materials	7⅞	0.39	20

High-yielding foreign stocks

Company/Country	Business	Price	Yield	P/E
Powerfin/Belgium	utility	73½	9.9%	11
Europistas Concesionaria/Spain	business svcs	13⅞	9.1	11
BASF/Germany	chemicals	130¾	9.0	10
Pen & Oriental Steam/UK	shipping	7¼	8.4	15
Casino Adp/France	food	17¾	8.1	9

Note: Data for period ending 11/30/92. Selected stocks have a market capitalization of at least \$300 million. ¹Shows price return on the EAFE index of European, Australian, New Zealand and Far Eastern stocks converted into U.S. dollars. ²Performance numbers reflect both local price change and currency fluctuation. Dividends are reinvested after subtracting foreign withholding tax. ³For period ending 10/31/92. NA: Not available. NM: Not meaningful. Principal source: Morgan Stanley Capital International Perspective. Emerging markets data provided by International Finance Corporation.

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Medium-term Treasuries deliver most of the yield you'd get on a long bond, so why take the market risk of the long bonds? Herein, a guide to funds catering to this sector.

Funds for fence sitters

By Mary Beth Grover

RARELY BEFORE has the yield curve been so steeply cocked. Three-month Treasury bills yield 3%, while long Treasuries yield 7.4%. The temptation to go long is great. Figure in inflation at 3%, and the long bond provides a real return of 4.4%, while the bill returns nothing.

But the long end of the Treasury spectrum is fraught with risk. If interest rates were to increase by a mere percentage point across the board, the price effect on the Treasury bill would be barely visible, while the price effect on the bond would be a capital loss of 11%.

What to do? One reasonable response to this situation is to compromise. Construct a bond portfolio with a maturity somewhere in the middle—five to ten years. Consider, for example, Vanguard's Fixed Income Intermediate-Term U.S. Treasury Portfolio, with a weighted average maturity of eight years. At its recent yield of 6.5%, the fund delivers a yield nearly 90% of what Vanguard's long-term Treasury fund produces—yet the intermediate fund is one-third less volatile. Says Ian MacKinnon, head of the fixed income group at Vanguard, "Nine out of ten years the yield on a ten-year Treasury is 85% to 95% that of a [long] bond but with just 60% of the risk."

And it's been like that for a long time. Over the past 65 years, according to Chicago's Ibbotson Associates, intermediate Treasury notes have outperformed the more risky long-term bonds. Over that period, 10-year Treasuries have run a 5.1% compound annual return, while the 30-year bonds delivered 4.8%.

The Ibbotson study shows that in-

termediate Treasuries suffered negative total returns in only 6 of those 65 years, while the long-term Treasuries put investors into the red in 18 years during the same period.

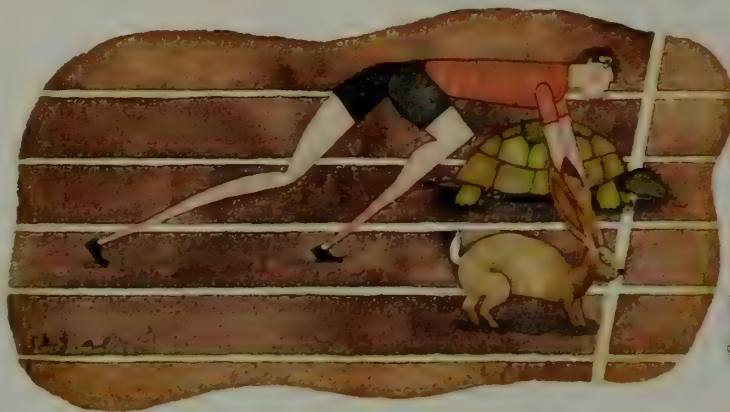
So why does the bond market keep pricing intermediate Treasuries so cheaply—that is, keep giving them comparatively high yields? It could be because the recent memories of long-term Treasuries are sweeter. In the roaring bull market for bonds over the last decade, long Treasuries did best. A constant-maturity portfolio of 30-year Treasuries would have returned an average of 14% annually, 2% higher than a portfolio whose maturity was maintained at 10 years.

But long bonds have now done so well that they yield only a fraction of a percentage point more than intermediates. The yield curve swings up steeply between the 3-month mark (3%) and the 10-year mark (6.7%); beyond that point it drifts only very gradually upward.

Where should you aim your bond portfolio? If you think interest rates are headed down across the board, take the risk and go long. Capital gains will be greatest there, if you are right.

If, however, you aren't so sure about the direction of interest rates, you can compromise by buying bonds (or a bond fund) with an intermediate maturity. Such a portfolio will deliver a better yield than one mixing equal doses of bills and long bonds.

The table lists five intermediate-term Treasury funds that we rate as Best Buys. To get on the list, a fund must have delivered good risk-adjusted performance over the past several years at low cost. The cost figure, which includes both annual expenses and sales commissions, counts for twice as much as performance in the Best Buy ranking formula. Vanguard's intermediate fund doesn't make the list because it was born barely more than a year ago.



Best Buys—intermediate bond funds

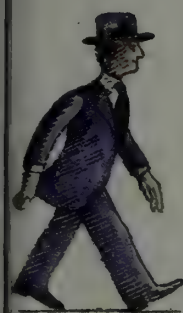
Fund	5-year total return annualized ¹	Annual expenses per \$100	Weighted average maturity
Benham Treasury Note	9.3%	\$0.59	4.0
Dreyfus 100% US Treasury Intermed	9.2%	0.62a	6.9
T Rowe Price US Treasury Intermed	9.5%	0.80a	4.5
Prudential Government Secs Intermed	8.7	0.84	3.5
Legg Mason—US Govt Intermed	9.6	0.85a	6.5

Expense ratio is in italics if the fund has a shareholder-paid 12b-1 exceeding 0.1% pending or in force. ¹Period ending Nov. 30, 1992. ²For three years only. a: Net of absorption of expenses by fund sponsor.

Past total returns for these intermediate funds were boosted by big capital gains. These days, expect yields in the 5% to 6% range.

Profit margins in the mutual fund business are so fat that everybody wants in. Yes, even airline and utility companies.

Coffee, tea or funds?



Chas B. Stackman

IMAGINE WALKING into McDonald's, ordering a Big Mac and fries and picking up a mutual fund prospectus. It's not inconceivable. Later this year American Airlines will begin flogging four mutual funds on its planes.

Along with the usual haute cuisine, each food tray will hold a promotional flier and response card for the no-load American AAdvantage funds: Equity, Balanced, Limited Term Income and International Equity. A come-on: For each \$10 you average in an American fund over the course of a year, the airline will credit a mile to your frequent flier account.

Since last May, Dominion Resources, parent company of Virginia Power, has been peddling its no-load America's Utility Fund to its 1.8 million rate payers. Every electric bill comes with a flier introducing the fund and its minimum \$20 monthly investment. You can pay your utility bill and buy mutual fund shares at the same time.

So far American Airlines' money market fund, which was first sold to passengers in late 1991, has attracted an insignificant \$18 million in assets. But the parent company, AMR Corp., has great hopes. Because airline passengers tend to be wealthier than the public at large, and because they are

sardined helplessly into their seats, they are an ideal captive investing audience. "We know everybody saw what we were offering and had a chance to consider it," deadpans William Quinn, president of AMR Investment Services.

American's money fund is managed by three people in AMR's own investment department. The expense ratio is a reasonable 0.5%, one reason the performance (recent yield, 3%) is a little better than the industry average. A \$200,000 account would earn its owner 20,000 frequent flier miles, enough for a free round-trip domestic ticket from Harlingen, Tex. to Fargo, N.D.—subject, of course, to labyrinthine restrictions on when and how the ticket can be used. Somehow, this freebie does not constitute taxable income, says AMR, although the last word from the Internal Revenue Service has not yet been heard on this subject.

AMR's four new offerings are clones of institutional funds that the airline has run for several years. Managed by such subadvisers as Capital Guardian Trust Co. and Templeton Investment Counsel, most of the funds have racked up quite respectable returns since the first was founded in 1987. But the main thing going for them

may turn out to be their low marketing costs.

At the Virginia power company, synergy comes down to mailing costs. Since the utility is already mailing monthly bills to a huge customer base, Dominion needed to spend just \$13 apiece to bring in 30,000 shareholders for America's Utility Fund. Michael Lipper of Lipper Analytical Services estimates that the average equity fund spends well over \$200 to bring in a new shareholder.

America's Utility Fund has \$42 million in assets. "We really think we have built a better mousetrap," says O. James Peterson III, president of Dominion's mutual fund operation. Since 75% of the fund's shareholders are using its monthly investment plan—versus well under 10% at fund families like Vanguard and Fidelity—assets are all but certain to grow rapidly.

How good is Dominion's product for the investor? Not bad. The 1.2% expense ratio is in line with the ratios at the two no-load utilities funds that made the FORBES Best Buy rankings (*Aug. 31, 1992*). Lord, Abnett & Co., hired by Dominion to pick the stocks, has delivered a 13% total return since the fund's inception last May, against the stock market's 8%.

These forays are probably the first of many. MBNA, the canny credit card outfit (*FORBES, Dec. 21, 1992*), is mulling whether to start distributing mutual funds.

There's nothing to stop an American Express or a Sears from trying to peddle funds to its clientele. But, as the recent travails of these two marketing giants illustrate, synergy is easier said than had in the world of financial services.

—J.Z. ■

the dollar, letting taxes go up and thus becoming a one-term President.

I hope that Mr. Clinton will also follow the example of going for growth by [eventually] bringing in a prominent Republican, as Kennedy did by appointing Douglas Dillon to the Treasury. If you have growth, you can make a lot of other political mistakes and still survive.

MacNeil: But the 1960s, Mr. Forbes, are not the 1990s. How much influence does a President, an American President, really have nowadays on our prosperity, growth, jobs, career opportunities, wage levels and everything else when so many of those factors are, in part, determined by competition from the rest of the world?

SF: Well, I think that a President can have an enormous impact in creating an environment where the full competitive muscle of America can be brought to bear. Right now, one of the chief obstacles to economic growth is the very high capital gains tax. Not only does it depress asset values, including real estate—which hurts the banking system—it also ties money, capital, to old investments. If you were to lower the rate, which is now one of the highest in the world, you'd see that capital would go into new investments. One of the great engines for economic growth is new businesses. In 1982-86 when we created 18.5 million new jobs, including a record number of high-paying ones, 14 million came from new businesses.

MacNeil: But that was something that Mr. Bush—in fact, some people criticized him by saying that was the only thing domestically he seemed to be really passionate about—was pushing, the capital gains tax, and he wasn't believed. At least he wasn't believed by the Democrats and perhaps by many Republicans who thought, "Oh, well, that's something for the rich and maybe for a few people who are sitting on homes they want to sell, but it's not really going to produce enormous growth in the economy."

SF: Actually, history shows just the opposite. When you reduce capital gains, as we did in the late 1970s and early 1980s, that allows money to go into new ventures. That's how we got the boom in Silicon Valley. That's how we got the high-tech boom of the 1980s. A capital gains tax reduction really allows new companies to be created—the Apples and the Compaq computers that challenge the traditional companies and make us more competitive, keep us on the cutting edge.

Estimates are that up to \$7 trillion of assets is tied up in old investments, heirloom investments, you might say, because of the high capital gains tax. Let's put that in perspective. We have in this economy \$40 trillion of assets. Assume you lower the rate; in the next couple of years if only 10% of that freed money goes into new investments, that will overwhelm any stimulus you could possibly get from increased government spending. And it would be

coming from the private sector, not from the people in Washington trying to second-guess the market.

A second area that shouldn't be overlooked is banking regulation. Our commercial bank regulators overreacted to the S&L disaster. So they didn't want to go before Congress and have to explain failures. Thus they forced banks to write down loans that were current, loans that people were paying the interest and principal on. The regulators would say, "Gee, we don't think this loan will turn out to be good, so put a reserve on it now." This was done even though the loan was still good. Many bankers concluded they would only get into trouble if they made loans, so they didn't make them. And that was a depressant on the economy as well. That's an area about which the Bush Administration knew but didn't do very much. I hope the Clinton Administration will say, "Hey, let's be realistic—not too easy, but not too hard" and end what you might call a regulatory reign of terror, regulatory-induced credit crunch. So those two areas, capital gains and easing bank overregulation, would have a powerful immediate stimulus, first on financial markets and then on the economy.

MacNeil: Are those the most influential things that Clinton could do to convince people like you that he's on the right track?

SF: To make it politically palatable, he might want to couple that with raising, as he's promised to do, the tax on the so-called rich. If he did that, the good done from lowering the capital gains tax and ending the

regulatory reign of terror would overwhelm any harm done by all the other tax proposals that people fear. It would have a positive impact on the economy.

One of the other areas that he has to push for is free trade—getting that North American Free Trade Agreement, especially if it extends beyond Mexico. We have a chance to have neighbors, Latin America, growing at Pacific-Rim-like rates. In the last five years our exports to Mexico have gone from \$12 billion a year to over \$30 billion a year because of Mexico's easing trade barriers, and so we go a little further. That's going to be a big stimulus to our economy for high-paying jobs.

MacNeil: Some of those figures include American factories that have moved there and exports to those factories in terms of partially produced materials.

SF: But a lot of those companies under current law can go down there now, the so-called border companies. NAFTA takes away the incentive for our companies to go out to Asia or some other part of the world when they find themselves becoming uncompetitive. In effect, we keep them within the hemisphere and increase our sales. It's a win/win situation, so I hope he pushes ahead with it.

MacNeil: Let's talk about things that are less concrete. How does it make you feel to—you're in your



Art Rickerby/Black Star



Shelly Katz/Black Star



AP/Wide World

Contradictory traditions: JFK's economic policies gave us a boom; Carter's, stagnation. Which path will Clinton take?

mid-40s, Clinton's in his mid-40s, so is Al Gore—how does it make you feel to have your generation come to power in this country?

SF: It makes you take a deep breath and say, "My God, it's on our shoulders." It's sort of like when you were younger and first had children, you'd say, "My goodness, remember when I saw parents as a youngster, and now I'm one myself. And I don't feel any different than I did before." It's a sobering thing, but as you get older you hope you can handle more responsibility. I think Mr. Clinton, at least by his actions so far, in trying to be moderate and trying to have a consensus before going off in any one direction, is encouraging. If he follows the Kennedy model—and Kennedy was a very young President—I think the country will be the better off for it.

MacNeil: Change was the mantra in this election. All three candidates were claiming to be agents of change. How much change, given that it's a new generation, do you expect in American society, in the American community?

SF: I think the real change is going to be less on the political side and more on the economic side. John Kennedy, for example, talked about the new frontier. He was talking about space. The real frontier is the American brain. The new economic era that we're going into is symbolized by the microchip, which is extending the reach of the human brain the way machines extended the reach of human muscle in the last century. It is just beginning to change the way we do business and the way we live.

Look at a company like Wal-Mart. It wasn't just Sam Walton's genius that made that company great and the one to fell Sears and Kmart. It was his sophisticated use of technology, getting so-called real time information. If, for example, Wal-Mart learned that Kmart had run out of blankets in Minneapolis, it knew right away to raise the price of its blankets a dollar or two that day; whereas it would take Sears a month to get that information up the 80 floors in the Sears Tower.

That technology is going to create whole slews of new industries, so there will probably be more change, or as much change, in the next 20 years in the way we live and the way we do business as there was from the Industrial Revolution in the 19th century and in agriculture with the advent of the plow a thousand years ago. Fiber optics will be coming into homes, and in a few years you'll have increased its capacity by a factor of 10,000, which means one strand of fiber will handle all the calls on Mother's Day. What does that do for the phone companies? It means they're going to have to rethink their existence.

MacNeil: You mentioned fiber optics, and you mentioned Kennedy and the space program. One of the reasons there was a big stimulus to high-tech research in this country was because of the space program and Kennedy's aim to get to the moon by the end of that decade. That meant a lot of federal money was put into a crash program to get to the moon, and Clinton has talked of things like a fiber-optic network. Are you, as a busi-

nessman, in favor of that kind of investment in new-generation infrastructure?

SF: I am in favor of that kind of infrastructure. I think it'll probably come faster and with fewer political obstacles—you are going to upset existing interests with profound implications—when you go ahead and deregulate, when you take away the regulatory impediments from the phone companies, the cable companies, the newspaper publishers. Let 'em all compete. If you take away those regulatory obstacles, you'll get much more investment, and faster, than anything the government can do. The government can provide the atmosphere for investment. That's why we're still ahead in areas such as digital screens, which will have a profound impact on television. The differences among telephones, televisions and computers are going to be obliterated, and there we beat the Japanese and their so-called high-definition TV. They had been tied to an obsolete analog technology dating from the 1920s, but we were fortunate; we leapfrogged

into the new digital technology, and the Japanese have realized they've wasted billions of dollars on a now obsolete technology. The huge changes will come in technology, and they will overwhelm anything we do on the political side.

As for the political side, I think that we will get a change in terms of term limits. This will be the most profound change since the rise of primaries and the direct election of U.S. senators at the turn of the century.

MacNeil: Every election, in a sense, makes a statement about the state of this democracy and society. What do you feel about what kind of shape they're in, reading the messages sent by this election?

SF: I think it's all very positive. When people feel that the system doesn't respond, they'll vote for a referendum like term limits; they'll give Perot a boost when he never would have gotten off the launching pad four years ago. This election showed the need for political leadership to explain where we are and where we're going, as Teddy Roosevelt, Franklin Roosevelt and Ronald Reagan did. One reason Mr. Bush did so poorly in the election was that he didn't do that. It was not just the state of the economy, which by historic standards wasn't as bad as other recessions we've had. Because of technology's changing the whole way the economy works, there's a lot of anxiety, turbulence and turmoil. High tech means you don't need as many middle managers. It is flattening out corporations, and when middle managers lose their jobs today, they know they're not going to get those jobs back again.

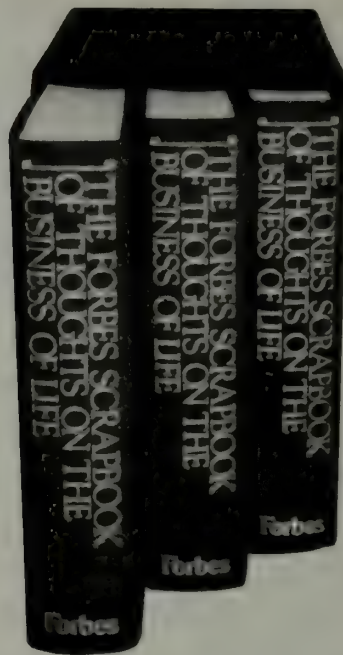
MacNeil: We just have a few seconds. Are you hopeful or confident that Mr. Clinton is the man who can provide that kind of leadership? Do his talents, as demonstrated so far, give you that confidence?

SF: He has the capacity; I hope he rises to the occasion. If he doesn't, he will after losing the 1994 congressional elections. Or if he doesn't then, we'll get somebody who will be the new Teddy Roosevelt in 1996. Our democracy is vibrant.



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some advice for investors whose high-coupon bonds have been called—and a caution for holders of bearer bonds.

Tax-exempt bearers beware

BY BEN WEBERMAN



Ben Webberman is a columnist for FORBES magazine.

A LOT OF STATE and municipal bonds will be called—redeemed before maturity—in the next few years, perhaps more than \$100 billion in 1993 alone. Most of these were sold a decade ago, with ten years' call protection, when yields were as high as 12%.

What should you do if your bonds are called? My advice is: Resign yourself to reinvesting at much lower yields and don't compromise on quality.

James J. Cooner, a senior vice president at Bank of New York, warns that the investing herd has stampeded into lower-quality issues for their higher yields. That has driven prices up relative to higher-quality issues, and narrowed the "quality spread," the yield difference between lower-rated and higher-rated bonds. In other words, the extra yield is too small to justify the extra risk.

An example: Long-term New York City bonds, rated BBB, currently pay only 40 basis points (or four-tenths of a percentage point) more than general market A-quality obligations. Given New York City's problems, this is scant reward for the risk involved. The spread was as wide as 125 basis points (or 1.25 percentage points) two years ago.

As a general class of municipal bonds, electric revenue bonds offer good quality and returns, says Cooner. Two issues he favors are Jacksonville, Fla. Electric Authority Revenue bonds, with a 6% coupon due 2015, priced at 96.27 to yield 6.31%, and Georgia Municipal Electric Authority bonds, with a 6½% coupon due 2014, priced to yield 6.25%.

Buying municipals requires some caution. Around 1 million, mostly obscure, issues exist, and there's no single source of information about them. The best approach is to decide on the kinds of bonds you want and ask several dealers to find suitable offerings.

Shopping around may be frustrating but is well worth the effort. In the secondary market the spreads between bid and ask prices are often wide, sometimes amounting to a half-year's interest. Jim Vogel, senior vice president for municipals at First Tennessee Bank, says an individual can avoid overpaying by placing an order for a new issue. New offerings are sold at a fixed price, first come, first served, and there's no sales charge or commission added to the price. Among his favorites are 17-year State of Mississippi General Obligation Capital Improvement bonds, rated AA. With a 6% coupon rate, the bonds are selling at par.

The current wave of redemptions could catch some holders of old-fashioned bearer bonds unaware, and cost them nearly eight months' interest when the bonds are called. If you have high-coupon bearer bonds, the chances are high they have been called or soon will be; check with your broker regularly. I know of one case of an investor who called his broker recent-

ly and asked whether a bearer bond issue he owned had been called. It had been, months earlier. The redemption money was just sitting in a bank somewhere earning the investor no return.

Most municipals issued through the early 1970s were in bearer form, and there are still about \$130 billion outstanding. Registered bonds began replacing bearer bonds in the late 1970s but became mandatory only after July 1, 1983.

The ownership of bearer bonds, like cash, is nowhere recorded, and possession is considered evidence of ownership. Each bearer bond consists of a certificate representing the corpus, or principal, and detachable interest coupons to suffice until maturity. At interest payment time, usually twice a year, the bondholder clips off a coupon and presents it to a bank for collection.

In times of heavy refundings and redemptions like these, there's a serious disadvantage in holding bearer bonds. Without a record of ownership, issuers or bondholder trustees have no foolproof way of notifying holders that their investments are being called. They learn about it only when they clip a coupon and it is returned by a bank with a note disclosing the call. Then the bond certificate must be returned for redemption, which usually takes six to eight weeks.

One way to dispose of a bearer bond is to put it in your brokerage account, where it may be converted to registered form or recorded as a book entry. But many brokers, before agreeing to accept a bearer bond, require other evidence of ownership, such as the confirmation slip issued at the time of purchase.

The potential continued demand for stock is enormous. Wall Street's ability to meet that demand is also enormous.

Stocks as pork bellies

BY FREDERICK E. ROWE JR.



Frederick E. (Shad) Rowe Jr. is the general partner of Dallas' Greenbrier Partners, a hedge fund.

AS A COLUMNIST, my 1992 was a big improvement over my 1991, a year in which I continually resisted the great bull market, which commenced with the bombing of Iraq in January. I was correctly skeptical of a Fed-engineered economic recovery, but the economy and earnings have had little to do with the stock market. Declining interest rates have been the stock market story of the last two years. Recognizing this last year, I stopped fighting the trend.

My best call was in the Mar. 16, 1992 issue, when I laid out the bullish case for natural gas. The column was timely and came very close to catching the lows in the price of natural gas. Over the next six months the price of the fuel rose from about \$1 per thousand cubic feet to more than \$2 before trailing off recently. On balance, the commodity natural gas has performed better than natural gas stocks. Frustratingly, Mesa Inc., recommended as a speculation in the June 8 issue, rose from 4 to 13 a share before making a complete round-trip. If the price of natural gas goes up meaningfully from here, so should the share price of Mesa Inc.

During the winter of 1991-92, nat-

ural gas producers and investors basically gave up hope that natural gas supply and demand would ever come into balance. Reserves were not being replaced, while consumption continued to rise. Eventually, something had to give, and I believe that it has. I believe that over the next year the price of natural gas will rise through its fuel oil equivalent price, which is about \$3 per mcf. During the natural gas glory days of the late 1970s and early 1980s, natural gas contracts were routinely executed at take-or-pay prices as high as \$9 per thousand cubic feet.

Contrary to popular belief, I suspect that, like the price of natural gas, many other cyclical, commodity-type products will rise dramatically in price over the next two years if the world economy experiences any sort of recovery. Typically, many of the companies I talk to are operating close to capacity, doing it with 30% fewer employees than they were five years ago and are generating returns that are barely satisfactory. What happens if demand picks up just a little? Prices go through the roof. I think we could see dramatic rises in the prices of paper, linerboard, cement, gold and aluminum. If there is no worldwide economic recovery, all bets are off.

Another recurring theme of mine has been the ever increasing tendency of stocks to trade less like stocks and more like commodities (*Apr. 13, 1992*). I have a friend who, when he talks down to people, likes to say, "Listen, I can explain it to you, but I can't understand it for you." I think that value players on both the long and short sides of the market understand this phenomenon. They are frustrated by it and resist it. I know

that is the case with me. In an idealized stock market world, an investor could buy undervalued stocks, short overvalued stocks and live happily ever after. That, unfortunately, is not the way the stock market world is.

The "dedicated" short-sellers I know have been absolutely miserable for the last two years. For the most part, they have been right on their fundamental research and shredded to pieces by the stock market.

Until January 1991 an ideal short could briefly have been described as follows: "Market capitalization is absurdly high relative to potential earnings. Company is burning cash. Insiders are selling. The product is inferior." A company so described would naturally have attracted short-sellers. In each stock market rally since January 1991, the high short-interest stocks have perhaps performed better than any other group. Very peculiar.

With stocks at extremely high valuation levels historically relative to earnings, book value and dividends, common sense would seem to indicate that the bull market has run its course. In my Aug. 3, 1992 column I went over the Goldman, Sachs strategy argument that the amount of money available for stock market investment as measured by household liquidity has barely been tapped.

You will never hear a competent commodity trader make a statement like, "Pork bellies are overvalued." The commodity trader is interested in the supply and demand for pork bellies. Based upon the measure of household liquidity available for stock market investment, the potential continued demand for stock is enormous. Unfortunately, Wall Street's ability to meet that demand by issuing new shares in public offerings is also enormous. Underwriting and issuing new shares is where Wall Street currently makes its living. The new issues calendar will grow until investors gag.

Currently, it is easy to get a new issue done. When Wall Street starts to have major problems with new merchandise, that will be the sign that the bull market has run its course. When Wall Street can't get its deals done, then those miserable bears can lift their heads a little. Until then, be careful on the short side.

Interested in securities of bankrupt companies? It's a complicated chore, but here's a service that will do a lot of the work for you.

Going for broke

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (New York Institute of Finance).

THERE'S GOOD MONEY to be made investing in bankruptcy stocks, but it's not an exercise for the casual investor. There is a definitive new book on the subject (*Bankruptcy Investing*, by University of Massachusetts Professor Ben Branch and bankruptcy attorney Hugh Ray, Dearborn Financial Services, \$29.95). It reminds us that in order to make bankruptcy investing more than just a crapshoot, we must be prepared to digest legal documents, investigate the record of the bankruptcy judge and attend the organizational meeting of the bankrupt company's creditors committee.

But the rewards are great for those willing to do the work. The first-place investment letter for all of 1992, on the basis of 11 months of performance data calculated by the *Hulbert Financial Digest*, most likely will be *The Turnaround Letter* (edited by George Putnam)—which analyzes companies that are in, or emerging from, Chapter 11. Through the end of November Putnam's letter had produced a gain of 56.9%—far above the 7.1% total return for the Wilshire 5000. Putnam's 1992 performance is not a fluke: Over the five years that the *HFD* has followed Putnam's service, it is one of the select few that has beaten a

buy-and-hold strategy, with a gain of 109.4% versus the market's 105.4%.

Bankruptcy investing has great potential because the stock market isn't very efficient in pricing distressed companies. More often than not, for example, the market overreacts to the downside at the point a company enters into Chapter 11. This creates an opportunity for the shrewd investor to pick off securities at fire-sale prices. And when a company emerges from Chapter 11, the market typically overreacts to the upside. For example, Lone Star Industries recently proposed a plan of reorganization that would give stockholders between 66 and 91 cents per share. The stock rose upon the news, from 3 to 3½, making it a great short sale.

Another good example of the inefficient market for securities of bankrupt companies: the skewed pricing of the stocks and bonds of Salant Corp., the clothing company that is just emerging from Chapter 11. According to Salant's proposed plan of reorganization, holders of Salant's 13¾% bonds will receive about 87 shares of common stock per bond. With Salant's common currently priced at 9⅞, the bond should be trading at around \$794—almost double its current price of \$402.

To exploit this arbitrage opportunity, Putnam recommends buying Salant bonds and shorting an equal dollar amount of the common stock. You make money as the ratio of the bond's price to the stock widens to 87-to-1 from its current 48-to-1. "Clearly," as Putnam says about Salant, "the bankruptcy security market is not efficient. But that's why we like it."

A second bankruptcy play that Putnam likes: Carter Hawley Hale (recent price, 9), which runs a chain of department stores on the West Coast and which emerged from bankruptcy in October. What particularly attracts

Putnam to Carter Hawley is that the turnaround investment fund Zell/Chilmark (run by Sam Zell and David Schulte) invested \$250 million in the company at the equivalent of \$10 per share. Zell has been successfully resurrecting bankrupt companies for years (earning him the nickname of "the grave dancer"), and Schulte is also a very experienced turnaround artist.

"If Zell and Schulte were willing to invest more than \$250 million at \$10 per share," Putnam argues, "the rest of us mere mortals should certainly consider plunking down a few bucks" to buy the stock when it is trading for less. Accordingly, Putnam rates Carter Hawley a buy up to \$10.

A third source of inefficiency in the turnaround sector: sheer boredom, as investors wait for stocks to emerge from Chapter 11. According to Branch and Ray, it takes an average of 25 months for the bankruptcy court to approve a Chapter 11 company's plan of reorganization. The current granddaddy of bankruptcies, for example, is LTV—which just spent its seventh Christmas in Chapter 11.

"Bondholder fatigue has reached such an extreme level," according to Putnam, "that even normally patient turnaround investors have thrown in the towel on LTV." Putnam expects LTV finally to emerge from bankruptcy by mid-1993, however. And he likes the secured bonds of LTV subsidiary Jones & Laughlin (the 9⅞% bond of 1995, the 9¾% bond of 1996 and the 8% bond of 1998). But he would steer clear of LTV's common stock.

Bankruptcy investing is not for the faint of heart. Putnam's recommended portfolios have been more than twice as volatile (or risky) as the average stock. And it's not for those looking to make a quick buck. But for long-term oriented investors with strong constitutions, the rewards can be great. ■

Companies and money managers have to come clean at least once a quarter. It is not unreasonable that Forbes' columnists are asked to do so just once a year.

Beginner's luck?

BY R.S. SALOMON JR.



R.S. Salomon Jr. is chairman and chief executive of Salomon Brothers Asset Management Inc. and portfolio manager of Salomon Brothers Capital Fund Inc. Research assistant: Caroline Davenport.

INVESTORS TODAY are not a patient lot, by and large. Speedy communications, technological innovation and round-the-clock trading have made markets more efficient. The same forces have made investors more anxious and more inclined to bail out of stocks on the basis of one piece of bad news as fast as they stampede into stocks on the basis of good news. Companies and money managers have to "come clean" at least once a quarter. Now FORBES' columnists are asked to do so just once a year, which seems perfectly reasonable.

First, my "quick results" tally. Since June I have written eight columns. Even in today's world it seems a bit premature to judge my advice to invest in "chicken cyclical," which was published in December. Of the remaining seven columns, four offered moneymaking ideas; the other three have lost money thus far. The following paragraphs contain summaries of each column and a comment about performance.

■ **Leveraged equities (June 18).** Investors in leveraged companies should benefit from a double-barreled boost to value: These firms are getting out from under onerous inter-

est payments and debt burdens, even as business is picking up. So far, only the most speculative recommendation in this group—TW Holdings—has made investors any money, essentially because the company has been restructured with the help of a large equity infusion from Kohlberg Kravis Roberts. The rest—Owens-Corning Fiberglas, Sealed Air and Black & Decker—have yet to see a pickup in business based on the economic cycle. This year should provide some improvement.

■ **Stocks to buy now (July 16).** Specialty chemical companies have some cyclical exposure, but their market position and pricing structure set them apart from firms that are highly dependent on the economic cycle. My recommendations in this group—Betz Laboratories, Nalco Chemical, Imcera, Great Lakes Chemical Corp., Sigma-Aldrich Corp., Morton International, Eco-Lab Inc., Safety-Kleen Corp.—are well ahead of a relatively flat Dow Jones industrial average. These stocks should continue to do well in 1993.

■ **Baby boom? (Aug. 3).** In the first of two columns proposing alternatives to investments in money market funds, I suggested buying the Bell regionals. These are high-quality companies with good prospects for earnings and dividend growth. With a healthy dividend yield—5.3% on average when we wrote the story—and a strong price performance, the group has substantially outperformed cash.

■ **Interest rate strategies (Aug. 31).** The second alternative that I suggested for money fund investors—ten-year bonds issued by the American, British and German governments—has not fared as well. This has been a modestly unprofitable recommendation, largely because of weakness in the U.K. pound and the fact that I did not recommend hedg-

ing the currency. Incidentally, a number of readers have pointed out that buying U.K. gilts and German bunds is very difficult for the average investor because round lots are typically \$500,000 or more.

■ **Growth at a discount (Sept. 28).** Tambrands is a company with a strong basic business and remarkable fundamentals. The stock is up and is also modestly ahead of the Dow Jones industrial average since this column was published. There are incredible mood swings taking place in the market. One moment investors flock to cyclicals (this was particularly true in the second quarter of 1992), then they become concerned about the economy and flock to growth (this was true in the summer and fall). In December, the trend reversed again. As a growth stock, Tambrands has been whipped around in the process, even though the long-term favorable story remains intact.

■ **Testing, testing (Oct. 26).** The clinical testing business represents an opportunity to capitalize on a range of trends in the medical field, among them the aging population, concern about malpractice and the pressure to reduce medical costs. The group I recommended: Corning Inc., National Health Laboratories, Inc., Damon Corp. and Applied Bioscience International. These stocks were doing quite well until a few weeks ago, when National Health settled a dispute with the government at \$110 million—a figure much higher than expected. The logic for recommending the group still holds in my view, but now patience will be required.

■ **Good news for Clinton (Nov. 23).** The Clinton win did not produce the widely anticipated selloff in stocks. I continue to believe that there is a strong case to be made for equities: The recovery will be slow but steady, borrowing costs and debt levels are shrinking, corporate balance sheets are strengthening, and corporate profit and dividend growth is likely to be surprisingly robust. I stand by my one-year forecast of 3500 to 3600 on the DJI.

The better-than-average results as a freshman columnist are, it is hoped, more than just beginner's luck. ■

Options are like lottery tickets: They limit potential losses while leaving open the potential for very large gains.

In praise of options

BY ANDREW J. KRIEGER



Andrew J. Krieger is managing director of KB Currency Advisors, Inc., a foreign exchange investment management and hedging/advisory firm based in Englewood Cliffs, N.J. He is author of *The Money Bazaar*.

I WROTE my first FORBES column Sept. 28, 1992 and the association has brought me luck. Each of the trade ideas I proposed quickly went up in price, sometimes within days.

My first recommendation, for example, was to pay \$375 (not counting commissions) for a March 1993 strangle on the yen. A strangle is a two-sided bet, combining a call that rises in value when the yen rises with a put that rises when the yen falls. In a strangle, both options are out of the money, meaning that the option buyer wins only if the currency in question moves sharply in either direction.

Sell, I originally said, as soon as the strangle quadruples in value to \$1,500. The yen immediately surged to alltime highs as it assumed a safe haven status in the European currency turmoil. When the strangle jumped to \$787 I changed my selling advice. I suggested (Oct. 26) selling half the position, locking in a small precommission profit. The strangle is now at \$25—that says something about op-

tion volatility—but we have until March. By the way, I don't just buy and hold options. A future column will discuss how to hedge positions, which is to say, trade against them.

I am fully aware, however, that no investor can realistically expect to buy only winners. The key to success in currency trading is to work within tight risk control guidelines so that when the investor is hot he can earn big profits and when (inevitably) he is cold, he can live with the losses.

The way to do that is to buy options. An option buyer can easily enough lose the entire amount bet on one trade. But the loss can't be any greater, and there's also a lot of leverage that can work in the investor's favor. It's quite possible for a move as small as 1% in the yen to double the value of a long-shot option.

In short, options give the investor an asymmetrical risk/reward profile. I do not like symmetrical bets. I don't like even-money bets. I prefer stacked odds, situations where my potential gains far exceed my potential losses. Options also give an investor the opportunity to make money even when he has no idea which way the market will move.

For example, just prior to Jan. 15, 1991, the market was quietly trading, even though President Bush had given Saddam Hussein an ultimatum that expired on that date. Some currency speculators reasoned: If Hussein capitulates, it will be business as usual and the dollar will most likely resume its downtrend against European currencies; on the other hand, if Hussein invites conflict, the dollar will climb as investors focus on its safe haven status. This was an ideal situa-

tion for buying a strangle. If there was a major move in either direction, one option would go way into the money while the other would simply expire worthless. The profit on the winner would far exceed the loss on the worthless one.

And that's just what happened. Within ten weeks of Bush's deadline, the dollar moved sharply up against most European currencies.

This ability to play for large market moves without a directional bias is unique to options. With a spot or futures trade you are either short or long—that is, you must make a directional bet.

Options aren't perfect. With options you can be right on direction but still lose if your timing is off. That happened to me last year. I believed the sterling/yen cross rate had come to an important threshold. Either the pound would dramatically reverse its 20-year downward trend versus the yen, or the pound would break through its five-year consolidation pattern and fall sharply to new lows.

My bias was for the pound to collapse, as I felt a move in that direction was the overwhelmingly more probable one, considering only the fundamentals (that is, the economic forces). But I wasn't going to bet the farm against the pound. So I structured a trade that would profit regardless of how the relationship changed—as long as a large move ensued. I layered the trade over three distinct time horizons using a series of independent option strategies, each with slightly different directional weightings.

Collectively, the positions had the potential of earning significant returns if I was right, while each strategy risked only a small amount of my capital. Initially this trade was one of the most frustrating of my career. The market ranged quietly for nearly seven months. Two of the three option bets I had placed expired worthless. Then, with the crash of the European Monetary System in September, the pound crumbled against the yen.

I was very right about the big move in the sterling/yen relationship, but my timing was off and I made less than I had hoped. Option investors must get the timing right. Invest only when you feel there is a very strong possibility of an imminent move. ■

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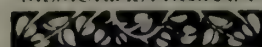
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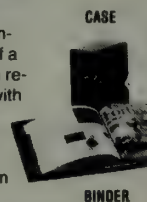
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Great company, overvalued stock

AFTER RECENTLY hitting an alltime high of nearly 40, shares of Chicago's William Wrigley Jr. Co., the chewing gum company, have lately backed off 14%, to 34¼. But if you're thinking of buying on weakness, listen to analyst William Leach of Donaldson, Lufkin & Jenrette. In effect Leach asks: What weakness? Wrigley stock is still up over 60% since December 1991, and is selling for a rich 24 times the \$1.40 a share that he is predicting in 1993. Weakness?

Don't get Leach wrong. He admires \$1.25 billion (estimated 1992 sales) Wrigley. The company, 101 years old, still accounts for almost 50% of the U.S. chewing gum market. He also likes its debt-free balance sheet.

But, from a stock market point of view, Leach thinks Wrigley is overvalued. He points out that over the past 20 years its shares sold for an average P/E of only 14, and never for more than 20 times earnings until recently.

Wrigley's per-share earnings have grown about 20% annually over the past five years. Impressive. But Leach doubts that growth rate is sustainable. Why? Because it has resulted from an enormous increase in net margins, from 7.7% to 11.2%. He notes that sales, by contrast, grew only 10% a year during the period. Leach thinks incremental margin improvement from current levels will be difficult. Moreover, about 40% of Wrigley's earnings are from overseas, mostly Europe. Leach expects the recent strengthening of the dollar to slow overseas earnings growth in 1993.

Leach says Wrigley is worth a 10% premium to the market. That would put the stock at only 27, more than 20% below its price today. Leach's advice: Sell.

Stocks for a new Administration

LAST SUMMER, FORBES columnist Laszlo Birinyi Jr., president of New York-based financial consulting firm Birinyi Associates, constructed two model stock portfolios. One was composed of stocks Birinyi thought would do well if George Bush won the election. The other was made up of stocks that would benefit if Bill Clinton won.

Birinyi picked beautifully. From Labor Day—the unofficial beginning of the campaign—through the election, the S&P 500 rose 1.32%. But Birinyi's Clinton stock portfolio advanced 10.5%, or 68% annualized. Some of the better performers on that list: Granite Construction (19 to 23¼); Birmingham Steel (22½ to 29); United Healthcare (44¼ to



Molten metal at a USX plant

"There aren't many stocks that are more of a household name."

51⅜); Raychem (35⅞ to 40⅝).

And the Bush stocks? They were off by 6.88%.

So what to do now? Many of the Bush portfolio stocks—including drugs, tobaccos, beverages and other consumer products makers—have continued to drift; Birinyi advises not to give them a heavy weighting in your portfolio from here on. But neither does he think it's wise to chase the Clinton portfolio stocks. "I think it is smarter," says Birinyi, "to focus on companies that, Clinton or no, will exhibit the most leverage from a pick-up in the economy."

Among the companies Birinyi likes is USX. Recent stock price: 32⅜. "There are not many stocks that are more of a household name than this one," says Birinyi. "Buying interest in the stock has been growing since late October."

Birinyi also is interested in bank

stocks, on the grounds that they'll benefit as the economy advances. Wells Fargo (74⅞) was on his list of stock picks at the end of 1991, and has since risen 35%. But Birinyi thinks the stock is still a buy. He also likes Citicorp (21). "It doesn't pay a dividend," he says, "but that has not deterred buyers." Finally, he's recommending Chase Manhattan (29¼) and BankAmerica (46⅞).

One for the tickler file

IN OCTOBER 1990 Emerson Electric Co. spun off Esco Electronics Corp. to its shareholders. St. Louis-based Esco (sales, \$406 million) manufactures a wide variety of defense systems and products, including electronics, armaments and mobile tactical systems. About two-thirds of its sales are to the U.S. government.

Things didn't start very reassuringly at Esco. For the fiscal year ended Sept. 30, 1991, it lost over \$67 million, or \$6.03 a share. But then Esco began to turn around under its highly regarded chairman, J.J. Adorjan. In fiscal 1992 the company earned \$1.4 million, or 12 cents a share, on sales of \$406 million.

Esco's 11 million Big Board shares, which fell below 3 in 1990, have recovered to a recent 8. Fueling interest in the company: In September Esco acquired Textron's \$42 million (sales) filtration systems business for \$28 million in cash and warrants.

There is a question mark over Esco, however. On Oct. 16 Adorjan, 53, resigned to become president of Emerson Electric. Some on Wall Street worry that without his strong leadership Esco will falter. But analyst Lior Bregman of Oppenheimer & Co. thinks Adorjan could work to restructure its relationship with Emerson in a way that could help Esco's earnings. Esco pays Emerson a fee in exchange for Emerson's guaranteeing its contracts. Bregman thinks that under Adorjan, Emerson might agree to take equity in Esco in lieu of cash payments. Nor does Bregman rule out the eventual acquisition of Esco by another defense industry player.

Bregman estimates Esco will earn 50 cents a share in the current fiscal year, a fourfold increase over 1992. That values the stock at 16 times year-

head earnings. There's no need to have it. But if it weakens, it's worth a close look.

Unwelcome creditors

LAST SUMMER FORBES reported that Edisto Resources Corp., the \$345 million (sales) oil and gas producer, was on the verge of going bust (Sept. 14, 1992). Now the holders of Edisto's \$103 million of senior notes, including Trust Co. of the West, are trying to help Edisto ram through a quickie, prenegotiated bankruptcy filing in order to salvage their investment in the Dallas-based company. If approved, the plan would give those noteholders about 90% of the equity in the reorganized Edisto. As for Edisto's nearly 26 million current common shares, they still trade on the American Stock Exchange; recent price, 25 cents.

But some unwelcome creditors may gum up the reorganization. The U.S. Interior Department's Minerals Management Service wants to know who will pay to plug and abandon Edisto's depleting wells in the Gulf of Mexico. The agency may file a claim for an estimated \$7.5 million. Other oil companies that sold leases to Edisto may well file claims against Edisto, too, to protect themselves against future cleanup cost bills.

The magnitude of Edisto's plugging liabilities is unclear. But the example of the recent bankruptcy case of Alliance Operating Corp., another independent producer, suggests the cost could be heavy. Texaco and Amoco, the prior leaseholders on some of Alliance's offshore production sites, may have to chip in \$5 million apiece to cover their share of the cleanup of just one site. All told, Interior's Minerals Management Service claimed about \$20 million to cover Alliance's 17 offshore sites. Edisto has stakes in at least 40 leases.

Bottom line: Avoid Edisto's Amex-traded common stock like the plague. One consultant who looked at the company warns that the cleanup costs will almost certainly wipe out any of the remaining value of the company's existing equity. Anyone who wants to invest should wait until the reorganization plan has been made final.

—JAMES R. NORMAN ■

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The more things change . . .

70 years ago in FORBES

(FROM THE ISSUE OF JAN. 20, 1923)

In one Ohio factory—that of the L.K. LeBlond Machine Tool Co. in Cleveland—I saw a group of employees enjoying a swim. Not in the river,

"Of course, we did many foolish things. Of course, difficulties galore confront us. But why vitiate our vitality in brooding, in nursing vain regrets, in futilely wishing that conditions were different? A new year is an ideal time for letting the dead past bury its dead. . . ."

"Cosmetic manufacturers, striving valiantly to keep milady beautiful, have discovered enough substitutes for war-vital materials to enable America's women to keep 'that schoolgirl complexion.' Paper, wood and glass are replacing metal for packaging; cottonseed and soybean oil are substituting for coconut oil as a lotion; flower oils are now making perfume."

25 years ago

(FROM THE ISSUE OF JAN. 15, 1968)

"Brokers Hornblower & Weeks-Hemphill, Noyes have figured out that the average Big Board stock rose 36.5% in 1967. Thirty-two issues more than tripled, with Republic Corp.'s 1,290% posting the best gain. Nineteen issues were down by more than 20%; Admiral Corp and International Minerals and Chemical [suffered] declines of 35%, [while] IBM replaced AT&T as the world's largest corporation. . . ."

"The British firm of Rolls-Royce Ltd. already powers half the Free World's fleet of commercial jets. Now, with [Britain's currency] devaluation, it's after an even bigger share of market."

10 years ago

(FROM THE ISSUE OF JAN. 17, 1983)

"Blame fear, plausible but excessive fear of higher interest rates ahead, for the perverse behavior of the bond and stock markets lately. The fear factor explains why some bond prices, which normally rise when interest rates fall, *declined* following the Federal Reserve's two recent cuts in the discount rate. It's why the Dow Jones industrial average, which briefly pierced its alltime high in early November in the course of its five-month rally, is now going mostly sideways, slightly above the 1000 mark."

"What's bad for horse racing is bad for taxpayers. The sport's decline has already thrown a shadow over state and local government budgets that benefit from franchise taxes and legalized gambling at the tracks. . . . What happens to the cost of government when those latest darlings of public finance—lotteries and casinos—also slip into the zero-growth pattern of old age?"



Normal lake for employee swimming at LeBlond Machine Tool Co., Cleveland.

or in a pool in the gymnasium, but in an arcadian lake that is one of the attractive features of this most beautiful layout of factory grounds."

"Will Rogers, the Oklahoma cowboy and rope-twirler who turned actor, has become the most famous and most quoted comedian in America. . . . Why this popularity? Endowed with a fund of natural wit, he early started to qualify as a top-notch. He first became the most skillful rope-thrower and cowboy in Oklahoma. . . ."

"At first his talk, his patter, was merely incidental to his antics with the rope. He strove studiously and industriously, however, to make his running comments as brilliant as his rope-work. Today his witticisms are the talk of the town."

60 years ago

(FROM THE ISSUE OF JAN. 15, 1933)



Zippy ad for 1933 Olds 6 and 8.

"The present Congress has practically given up any attempt to balance the 1934 budget as a result of indications that President-elect Roosevelt opposes the sales tax policy. At the same time, the Congress remains inimical to many constructive proposals [that have been made] by the outgoing administration. . . ."

50 years ago

(FROM THE ISSUE OF JAN. 15, 1943)



Loading prefab house sections, 1943.

"It has finally been proved that houses can be mass-produced like automobiles. It is being done today, on a small scale. After the war the low cost of these prefabricated houses will create the biggest demand for new homes in history. It will be a new billion-dollar industry, with countless opportunities."

Some of the biggest bores I've ever known are men who have been highly successful in business, particularly self-made heads of big companies. Before the first olive has settled into the first martini, they pour the stories of their lives into the nearest and sometimes the remotest ears capturable. . . .

These men have indeed paid the price of success. To rise to the top of a big company often takes a totality of effort, concentration and dedication. Others, too, have to pay part of the price. Wife and children are out of mind even when in sight. . . .

—MALCOLM FORBES

A Text ...

Brethren, if a man be overtaken in a fault, ye which are spiritual, restore such a one in the spirit of meekness, considering thyself, lest thou also be tempted.

—GALATIANS 6:1

Sent in by Roger Erickson, Fari-bault, Minn. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Being in politics is like being a football coach; you have to be smart enough to understand the game, and dumb enough to think it's important.

—EUGENE MCCARTHY

Nothing is so admirable in politics as a short memory.

—JOHN KENNETH GALBRAITH

A newspaper reported that I spent \$30,000 a year buying Paris clothes and that women hate me for it. I couldn't spend that much unless I wore sable underwear.

—JACQUELINE KENNEDY

One great use of words is to hide our thoughts.

—VOLTAIRE

If experience teaches us anything at all, it teaches us this: that a good politician, under democracy, is quite as unthinkable as an honest burglar.

—H.L. MENCKEN

If one man offers you democracy and another offers you a bag of grain, at what stage of starvation do you prefer the grain to the vote?

—BERTRAND RUSSELL

Politics is the diversion of trivial men who, when they succeed at it, become important in the eyes of more trivial men.

—GEORGE JEAN NATHAN

There is something about a bureaucrat that does not like a poem.

—GORE VIDAL

He knows nothing and thinks he knows everything. That points clearly to a political career.

—GEORGE BERNARD SHAW

Vote for the man who promises least; he'll be the least disappointing.

—BERNARD BARUCH

Politics: A strife of interest masquerading as a contest of principles.

—AMBROSE BIERCE

The execution of the laws is more important than the making of them.

—THOMAS JEFFERSON

Politicians are the same all over. They promise to build a bridge where there is no river.

—NIKITA KHRUSHCHEV

Politics have changed of late,
Which leaves me piqued and sad:
No longer can I separate
The good lies from the bad.

—ART BUCK

The perfect bureaucrat everywhere is the man who manages to make no decisions and escape all responsibility.

—BROOKS ATKINSON

Bureaucracy is a giant mechanism operated by pygmies.

—HONORÉ DE BALZAC

Large organization is loose organization. Nay, it would be almost as true to say that organization is always disorganization.

—G.K. CHESTERTON

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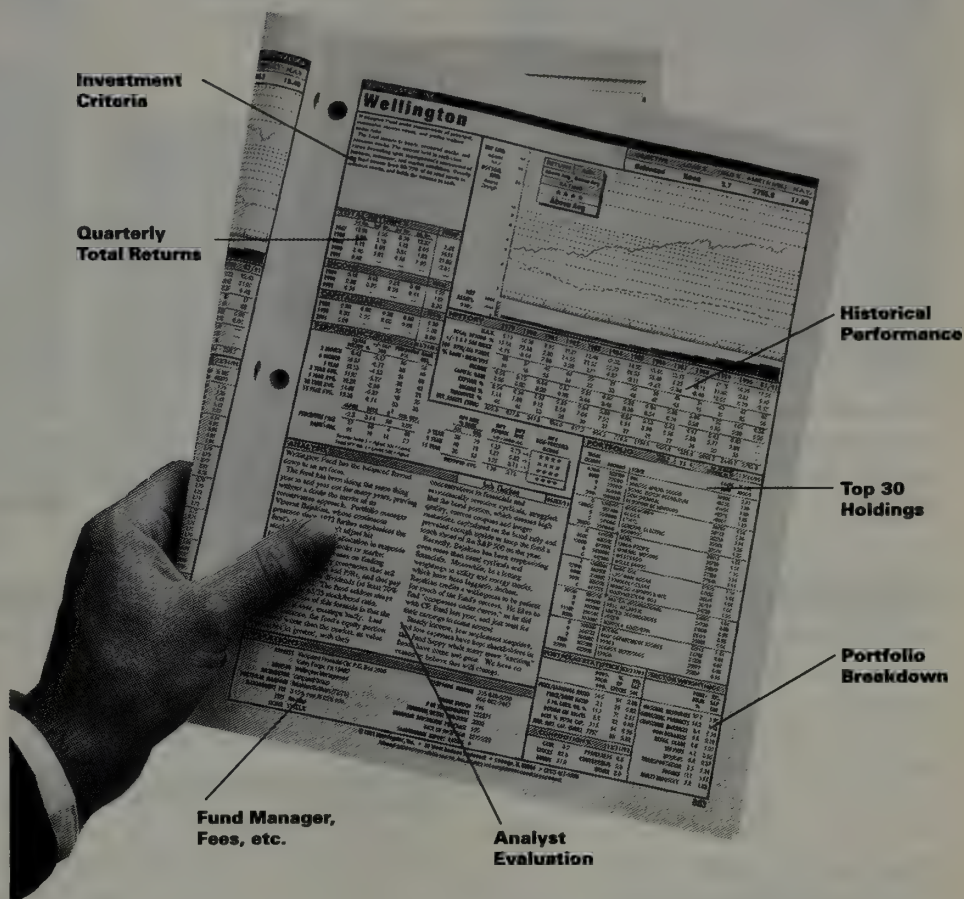
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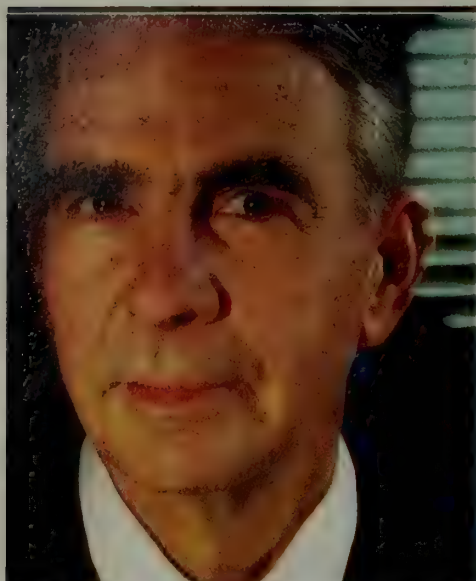


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Just because a bond is tax-exempt doesn't mean that a government or a sound business stands behind it. And don't assume that the cops are looking out for your interests either.

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The play in defense stocks isn't over, says Lewis Sanders: "I still see another 15% to 20%, more than general market expectations."

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And the 1993 Legend Coupe LS owes much of its muscle to its 230-horsepower, 24-valve V-6. Not to mention such performance enhancing features as a four-wheel double-wishbone suspension, a Traction Control System and a standard six-speed manual transmission. All of which suggests that despite its numerous luxury amenities, like soft leather and burled walnut trim, the Acura

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Hometown boy

AT&T IS A FAMILIAR NAME to Gary Slutsker, who grew up in AT&T country. A native of Morristown, N.J., hard by the communications giant's Basking Ridge headquarters, he recalls his Little League baseball team being coached by one of the company's public relations executives, David Manahan. But Gary has other less fond memories. As he tells it:

"On Sept. 17, 1991 I arrived at Newark Airport at 4 p.m. with Patrice and our 3½-month-old son, Charlie, eager to get to Chicago. After the plane was loaded the pilot told us our flight would be delayed. Long, miserable hours later we learned that a failure at an AT&T switching center caused by human error had knocked out all Federal Aviation Administration communications at the New York area airports. We spent seven hours with a screaming infant in a jam-packed terminal until a sympathetic ticket agent with United took pity on us and herded us onto one of the first planes to depart—a jammed DC-10 that finally took off at midnight."

Yet Gary realized that the switching snafu wasn't at all typical of the new AT&T. Far from lagging in the transformation sweeping the computer/communications industries, AT&T is in the vanguard. If Gary is still mad at AT&T for what happened at the airport, you wouldn't guess it from his cover story, "The tortoise and the hare," which begins on page 66. Slutsker, who launched his journalism career as a stringer for the *New York Times* at Middlebury College, joined FORBES in 1984. He was promoted in 1991 to the post of Midwest Bureau Chief, stationed in Chicago.



Gary Slutsker

Are bonds really necessary?

OUR CAPITAL MARKETS COLUMN this issue is written by a guest writer, economist/money manager Peter Bernstein. I'm putting it mildly to say that Bernstein puts forth an iconoclastic viewpoint. He argues that bonds have no useful place in an investment portfolio, being an inefficient hedge against declining markets and lagging far behind stocks in total return. Page 113.

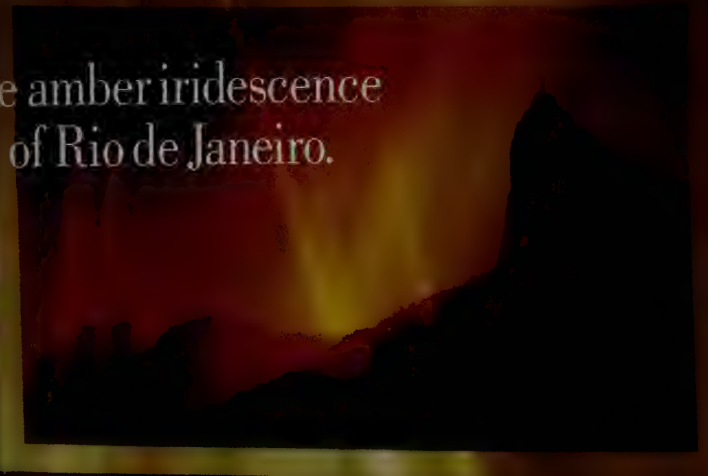
Fighting back

IF YOU THOUGHT THAT THE U.S. had been pretty much wiped off the home electronics map, you don't know about Miamisburg, Ohio's R.L. Drake Co. This privately owned electronics company has been battered by foreign competition and by technological change yet has established a niche position in the electronics world. The story of how it has done so is an instructive one. Seth Lubove wrote "Make a better mousetrap." Page 56.

James W. Michaels
Editor



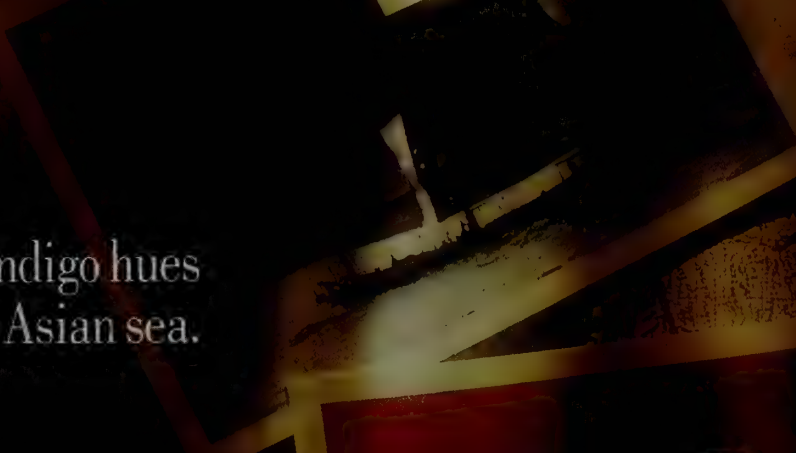
The boundless blue
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The amber iridescence
of Rio de Janeiro.



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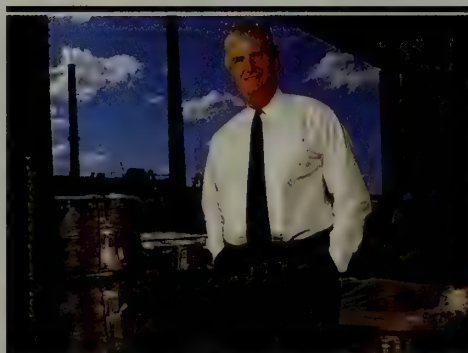
Magma makes out

IN NOVEMBER 1988 E.M. Warburg, Pincus & Co. invested \$93 million for a one-third interest in Arizona-based Magma Copper Co. It was a risky bet. Magma was the highest-cost major copper producer in the U.S. and, after floating a load of junk bonds as part of the recapitalization, the most leveraged as well.

Two years later, with Magma's shares trading at around 5, Warburg, Pincus was slightly underwater on its investment. But FORBES figured that if Magma could cut production costs, the operating leverage inherent in copper mining would bail out Warburg, Pincus and other investors (Dec. 10, 1990).

So it has. In late 1991 Warburg, Pincus invested an additional \$21 million in Magma. Today, with Magma's shares recently trading at 14½, its 45% stake in the company is worth around \$300 million—nearly three times its investment.

Why the turnaround? In 1988 it



Magma Copper President J. Burgess Winter
Credit the employees.

cost Magma 78 cents, excluding financial charges, to produce a pound of copper. Today the figure is 64 cents. Last year, when the realized price of copper averaged around \$1 per pound, Magma's operating cash flow was an estimated \$180 million—compare this with cash flow of \$162 million in 1989, when copper fetched \$1.17. Credit for this improvement goes to an employee productivity program in which hourly workers receive 40% of any cost savings.

In 1994 Magma expects to start mining a new ore body in Ely, Nev. This will help reduce its overall production costs by about 15% by 1996, according to Magma President J.

Burgess Winter.

Warburg, Pincus Vice Chairman John Vogelstein says his firm has no intention of cashing out anytime soon. "With declining costs, increasing production and the possibility of higher copper prices, we think we still have a very, very attractive investment on our hands," he says.

Promise fulfilled

TWO AND A HALF years ago Texas Instruments Chairman Jerry Junkins told FORBES that the Dallas-based company was on the verge of making good on its promise to turn its research prowess into commercial success (July 9, 1990). For a while it seemed that Junkins and FORBES would have to eat his words. A sharp drop in prices for DRAM memory chips was largely responsible for TI losing \$249 million on operations in 1991.

But these days the company is coin-ing money. TI's chipmaking operations turned profitable in last year's third quarter; for the year, TI earned an estimated \$250 million (\$3.03 a share) on revenues of around \$7 billion. This year analysts figure the company will earn over \$4 a share. Since late 1991 TI's stock has more than doubled, to a recent 56½.

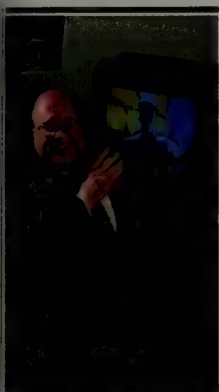
"The entire strategy has been based on new capacity, new products and substantially closer customer relations," says Junkins. By 1995 TI's capacity to make chips with features smaller than 1 micron (one-millionth of a meter) will have quadrupled from current levels. Meanwhile, a shortage of memory chips is increasing, thanks to surging demand and a lack of new capacity among Japanese chipmakers.

Moreover, TI now gets about 40% of its chip revenue from application-specific chips; these are much more profitable than commodity memory chips. That's up from 17% when Junkins took over as chief executive in 1985. Other reasons to be optimistic about TI's future include a relatively stable defense electronics business, a software business that Junkins says could grow from \$200 million to \$1 billion by the end of the decade and a crack legal department that's helping generate royalty revenues of about \$300 million a year on an ongoing basis from TI patents.

Growing pains

CABLE TV's music video giant, MTV, not only changed the face of pop music but also grew into an enormous profit center for its owner, Viacom International. Then along came Miami-based Video Jukebox Network, Inc., backed by media heavyweights Newhouse Broadcasting Corp. and Tele-Communications, Inc., the nation's largest cable operator. Unlike MTV, which makes its money from selling advertising, VJN earned most of its revenues by charging a fee to viewers who call in to request specific videos.

Was Video Jukebox the next MTV?



Former
VJN President
Andrew Orgel
**Will Video
Jukebox still
be under-
capitalized?**

Noting that the company was in its startup stage and still losing money, *FORBES* figured VJN was better to watch than to buy (*Mar. 4, 1991*).

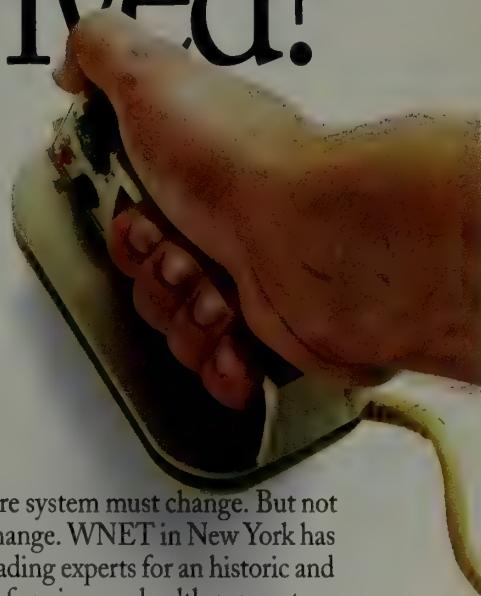
The picture hasn't gotten any brighter. VJN is still in the red, and its shares recently traded below 1, down from around 5 in early 1991. In August VJN President Andrew Orgel was dismissed. Soon after, the company announced that VJN Partners, which owned just over 50% of the company, would be dissolved. VJN's investment banker, Tampa-based Communications Equity Associates, now owns 16%; Newhouse, 16%; and Liberty Media Corp., a subsidiary of TCI, 11%.

Video Jukebox is currently being run by an interim management headed by Communications Equity Chairman J. Patrick Michaels. Michaels says he's looking for an investor to put up \$15 million for a majority interest. But he may be underestimating the company's capital needs. Former VJN president Andrew Orgel figures VJN will need \$40 million over the next few years if it's to become a viable competitor to MTV.

—PABLO GALARZA ■



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Gates goes Hollywood

MICROSOFT'S Bill Gates has done lunch and dinner with Michael Ovitz, head of Hollywood talent agency Creative Artists Agency. They were brought together by Microsoft Executive Vice President Steven Ballmer and CAA staffer Sandy Climan, college classmates at Harvard.

"The notion that I would invest in a film company is absolute fiction," says Gates. So what did Gates and Ovitz talk about? Interactive computing. Gates is enthusiastic about multimedia—combining computers with sound and moving images. Gates has already launched a startup called Continium near Microsoft's Redmond,



Bill Gates, of Microsoft

A mix of technology and entertainment.

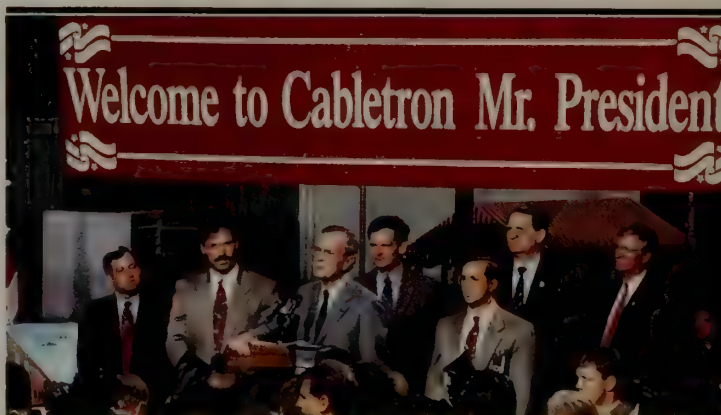
Wash. headquarters to research the emerging multimedia market.

"We're interested in getting together with anyone who might have thoughts about how technology will come together with [entertainment] content," Gates says. "A lot of those people happen to be in Hollywood."

—JULIE PITTA

Networking

S. ROBERT LEVINE and Craig Benson are members of The Forbes Four Hundred and founders of \$400 million (estimated fiscal 1993 sales) Ca-



President George Bush campaigning at Cabletron Systems
Now they're helping President Clinton, too.

bletron Systems, Inc., a prospering manufacturer of local area network products. When President George Bush campaigned in New Hampshire last year, Levine and Benson welcomed him to Cabletron's headquarters town of Rochester under a big banner saying "Welcome to Cabletron, Mr. President." But Levine and Benson aren't prejudiced. When Bill Clinton's inaugural planners needed 500 computers to be networked together, fast, Cabletron shipped the networking hardware—free of charge—the day the request came in; the company's technicians had the system up and running a few days later. "I didn't vote for Clinton," says Benson, "but I want to help support the President no matter who he is."

Settling up?

HOUSTON DEVELOPER and Forbes Four Hundred member Jerry J. Moore has been charged by the Federal Deposit Insurance Corp. with contributing to the demise of two Houston banks—1st National Bank of Texas and the Westheimer Memorial Bank. In a lawsuit filed late last year in a Houston federal court, the FDIC charges that Moore fraudulently obtained \$16 million in real estate loans from the ill-fated banks.

Moore denies the charges. But in a deposition he gave in a case brought against him in 1990, Moore admitted asking an employee to buy a shopping center from him, borrow against the equity in the property, and then trans-

fer the loan and property back to him and his wife, Jean. He also confirmed similar arrangements with other people. Moore himself couldn't borrow against the properties because doing so would have concentrated too many of the bank's loans in one borrower.

Moore is also involved in a similar case concerning the U.S. Comptroller of the Currency and Houston's First National Bank of Bellaire. In this case, the court documents have been sealed.

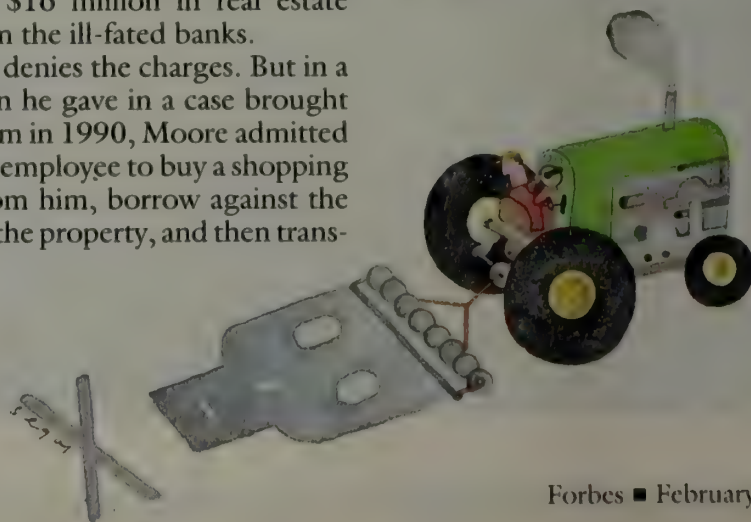
In all these cases, Moore says he thought what he was doing was perfectly legal. His attorney claims he is in the process of settling the dispute with the FDIC.

—CLAIRE POOLE

Profits from sludge

SLUDGE, a product of processed sewage, isn't pretty to look at, but it's rich in nutrients and is commonly used by farmers as a soil additive. But when William Parker, 65, purchased nearly 300 tons of the stuff in 1986, all he got was a bumper crop of headaches.

Parker put the sludge on 110 acres of papaya seedlings at his Freeport, Bahamas farm. Six months later the entire papaya crop was dead. Parker lost the \$500,000 he'd invested in the



farm, and defaulted on a \$500,000 loan that he'd personally guaranteed.

So Parker sued Dade County, Fla., whose water and sewer authority manufactured the sludge. He also sued the South Dade Soil & Water Conservation District, which marketed the sludge as Daorganite, now called Florida Organix. (South Dade sells about 15,000 tons of the stuff a year, at \$16 a ton.) Parker claimed that a chemical reaction caused by the Daorganite killed his plants.

The courthouse can be an easier place than a hot field to make a buck. Last fall Parker settled out of court with South Dade Soil & Water's insurance company for an undisclosed amount. In November, a federal jury sided with Parker against Dade County, awarding \$6.9 million in damages. Dade County has asked the judge to reverse the judgment.

—PABLO GALARZA

Testing?

SINCE late 1991 Citicorp has been buying and selling the bank debt of distressed corporate borrowers. The side venture is working out nicely. Citi typically buys the debt of large,

liquid bankruptcies—R.H. Macy is a good example—from other banks, holds the loans for three months or so, then flips them to big retail players in the market such as Fidelity Investments. Competitors report that over the past nine months, Citi has committed an estimated \$200 million of its own capital to this business.

Will Citibank expand this business into packaging and selling some of its own bad loans? A Citi spokesman says the bank will learn more about the business. But for now, he says, Citi will keep these portfolios separate.

—LAURA JERESKI

Arrogance

NEW YORK CITY Comptroller Elizabeth Holtzman and the city's Finance Commissioner, Carol O'Cleireacain, are giving grandstanding a bad name.

The two elected officials are trustees of New York's \$45 billion public employee pension systems. Among those assets are \$263 million worth of German bonds and stocks in such companies as RWE, BHF Bank, Heidelberger Zement and Karstadt AG.

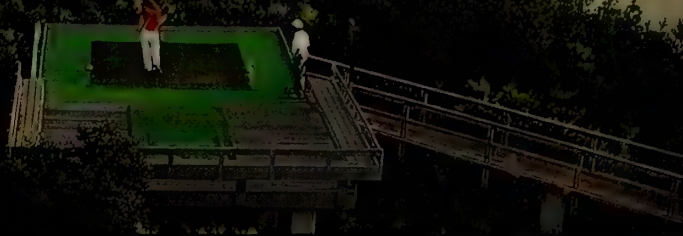
Using these investments to intro-

duce themselves, on Dec. 7 Holtzman and O'Cleireacain wrote to German Chancellor Helmut Kohl. Claiming to be concerned that Germany's "geo-specific risks"—fractured English for ethnic violence—threaten the pension funds, the New York officials arrogantly instructed Kohl to "inform us of any actions that the German government or any other responsible parties have taken to curb neo-Nazism and other right wing extremist movements in Germany."

Kohl had every right to be insulted by the letter, but he took it seriously. On Dec. 17 one of his aides politely assured Holtzman that "good neighborliness and friendship" are high priorities in Germany; the Kohl government, he added, enjoys "a special solidarity with our citizens of the Jewish faith."

Holtzman's flack says there's nothing new in his boss' writing to Kohl—she has, he says, already used her position as pension trustee to complain about politics in South Africa and Northern Ireland. With so many problems in New York to deal with, one might expect the Comptroller to leave diplomacy to the diplomats. ■

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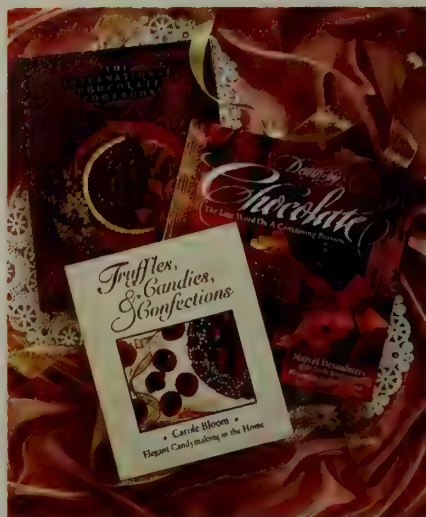


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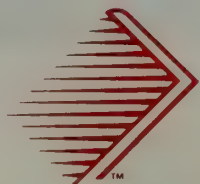
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READERS SAY

Creative thinking



SIR: "Achilles' heel" (Nov. 9, 1992) is an accurate view of the problems facing the Japanese banking system. These same problems face other industries also. The homogeneous management by consensus that has been touted as the strength of Japanese management fails to produce creative decision makers. Rather than worry about Japan "taking over the world," American business should capitalize on its creative management expertise and expand its presence in the Japanese market.

—PAUL R. KING
President
Nichibei Dynamics, Inc.
Mesa, Ariz.

The quest for efficiency

SIR: American manufacturing companies that fail to continuously improve their product, speed of delivery and value added of their goods and services stand to lose more than a few percentage points of gross margin ("A process that never ends," Dec. 21, 1992). They will lose their customers to more competent competitors—domestic and foreign—who know the edge lies with companies that create value through understanding their customers' needs and exceeding their expectations.

—ROBERT E. NASON
Executive Partner
Grant Thornton
Chicago, Ill.

Pro-business

SIR: Re "Here come the lawsuits" (Dec. 7, 1992). There will be little tort reform under the Clinton Administration. With his heavy backing from attorneys, the litigation explosion will continue. But Texas justice has come a long way since the Pennzoil case in 1985. That was two Supreme Court elections ago, and the balance on the



Supreme Court now weighs in favor of the business community.

—EDWARD G. SCHREIBER
President
Independent Insurance Agents
of Houston
Houston, Tex.

Handle with care

SIR: Holy philately, FORBES! ("The stamp arbs," Dec. 21, 1992.) Doesn't Richard Lehmann know the number one rule of stamp collecting? Never handle stamps with your fingers. One should always use stamp tongs, which are especially designed "tweezers" used for handling philatelic material.

—BRYAN I. LORBER
So. Burlington, Vt.

Presidential interest

SIR: Special interests by political custom are merely the interests of others than ourselves (*Fact and Comment*, Dec. 21, 1992). Much as you would like to pin all such things on Congress, the budgets presented to Congress by the Presidents in the past 12 years have been more out of balance and more loaded with special interests than any in history.

—WARD MCCABE
San Jose, Calif.

Vindictive, not!

SIR: You refer to the fact that you could find no one who was willing to speak openly about Martin Davis, because "he's a vindictive man" ("Break it up?" Dec. 7, 1992). I have known Marty professionally for 17 years. Our two organizations have worked together in various degrees. Several years ago, when I believed Paramount dealt unfairly with my bank, I took Marty (who was then chairman) to task. Marty's only response was to indicate I was 100%

ight, apologize profusely for the action, and promise to make it up to us . . . and he did.

—HOWARD ROSOF
Executive Vice President
National Westminster Bank USA
New York, N.Y.

The New Mexico way

SIR: Re "The therapist" (Dec. 7, 1992). The problems John Ackerman inherited at Public Service Co. of New Mexico have been shared by public utilities throughout the Southwest. For its part, the state of New Mexico has encouraged a steady rate of economic growth, often in close cooperation with PNM. We are a small state, careful with our resources, protective of our quality of life, conservative with the taxpayers' money. But we are neither vicious nor antibusiness.

—BRUCE KING
Governor
Santa Fe, N.M.

Minor player

SIR: The Resolution Trust Corp. is not a dominant player in today's real estate market, nor is it the determinant of values ("Hang on to your wallets," Dec. 7, 1992). The optimistic overbuilding of the 1980s fueled by easy credit and generous tax credits created the tough market of the 1990s—plain and simple. Thanks to realistic pricing, the RTC is quickly selling its real estate assets at market prices. This process doesn't destroy markets, it only reflects current conditions.

—LAMAR C. KELLY JR.
Senior Vice President for Asset
Management and Sales
RTC
Washington, D.C.

Cash at hand

SIR: That we have borrowed money to pay our dividends is wrong ("Future shock," Dec. 21, 1992). In fact, cash generated from operations is almost three times the dividend requirements, and certainly sufficient to pay those dividends.

—TIMOTHY L. GUZZLE
Chairman of the Board and President
TECO Energy, Inc.
Tampa, Fla.

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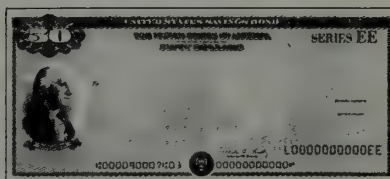


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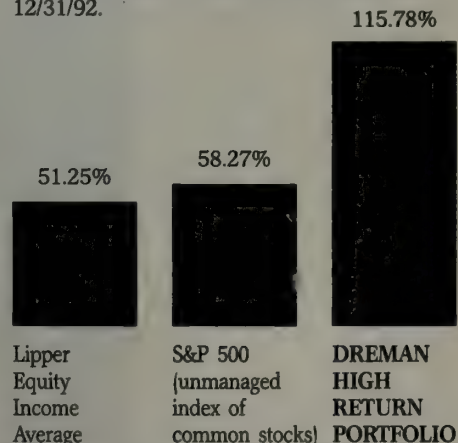
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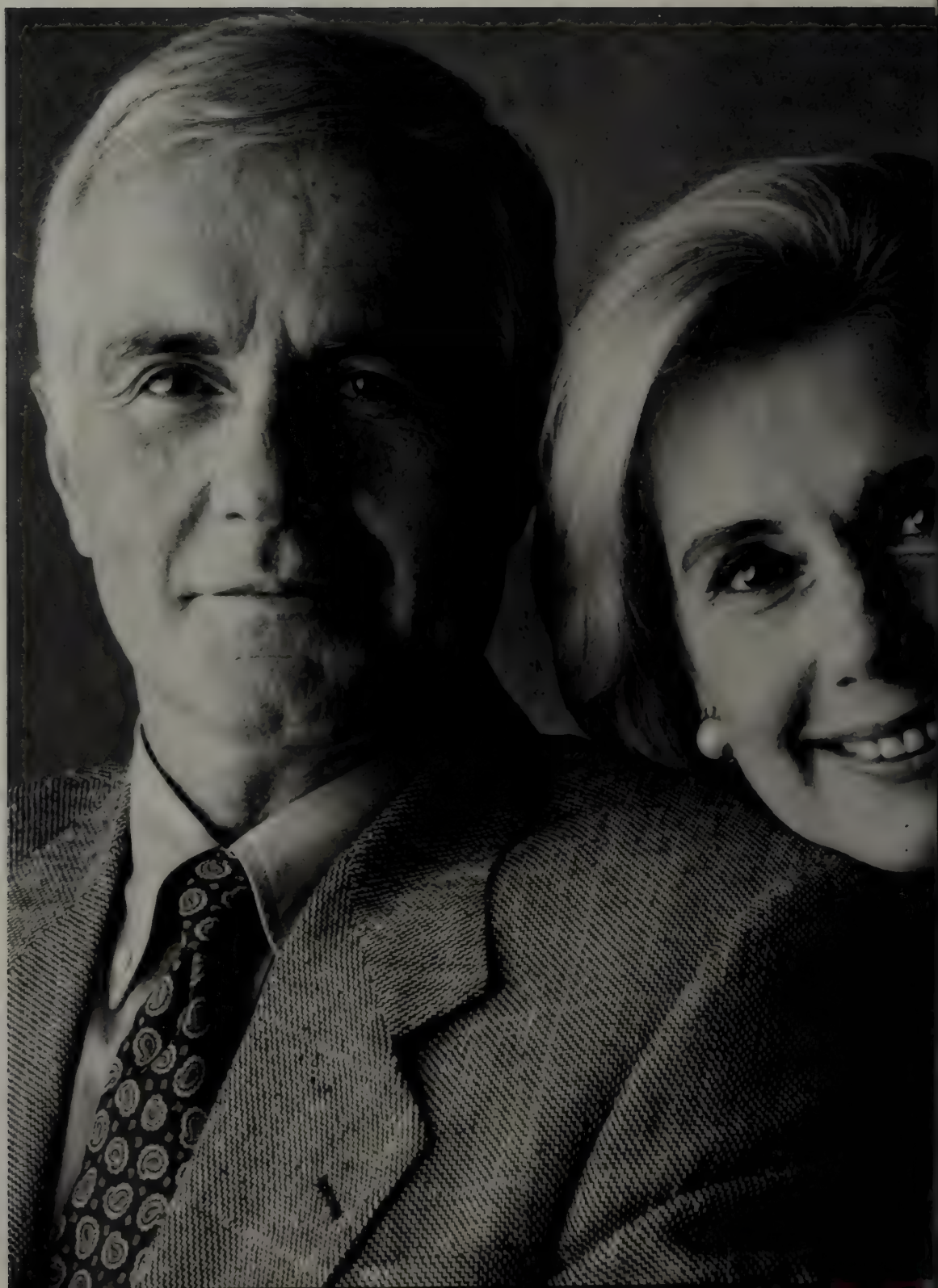


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*Ranked by Lipper Analytical Services, Inc., an independent rating service against 61 other Equity Income Funds for the period 10/11/90 to 12/31/92. As of 12/31/92 the average annual total returns for the one year period and since the inception of the Fund (March 18, 1988) were 19.8% and 17.5%, respectively. The investment return and principal value of an investment in the Portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. As with any investment, past performance does not guarantee future performance. Distributor, Fund/Plan Broker Services, Inc.

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**What every man
should know
about his prostate.**



What and where the prostate is

Only men have a prostate. It's a nut-sized gland located at the base of the bladder. It surrounds a part of the urethra, the tube that carries urine from the bladder through the penis.

The prostate supplies the milky fluid that helps transport sperm through the penis during ejaculation. Prostatic fluid also aids conception by providing support and nour-

ishment for the sperm and helping to make the vaginal canal less acidic.

What an enlarged prostate is

In most men, after age 45, the prostate starts to enlarge and may continue to enlarge for the rest of a man's life. This growth may be benign prostate enlargement, a non-cancerous condition. A major cause is the activity of a key hormone.

By itself, benign prostate enlargement isn't a problem. But as the prostate continues to grow, it can squeeze the urethra (like pinching a straw) and interfere with the normal flow of urine, causing uncomfortable and embarrassing symptoms.

Benign prostate enlargement is a common medical finding in older men. However, not every man develops the condition, and in those who do, it is not always progressive.

The urinary symptoms of an enlarged prostate

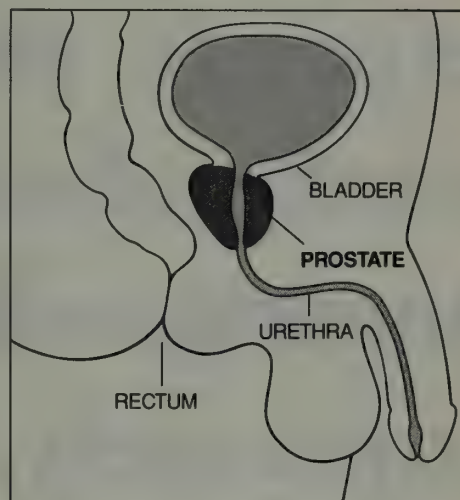
Among the symptoms commonly associated with an enlarged prostate are more frequent urination, especially during the night, or the sudden, almost uncontrollable urge to urinate. The added pressure on the urethra can also cause a weak, interrupted urine stream, a sense of the bladder not emptying completely, leakage, and difficulty in starting urination. It can even result in total blockage, a serious condition.

Why you should consult the doctor

Symptomatic benign prostate enlargement can be helped. Recent advances in treatment have been made, and today your doctor has several options. So now, more than ever, is an excellent time to consult your

doctor. You and your doctor should discuss which treatment option would be best for you.

If you experience any symptoms, see your doctor and speak frankly about the problem. A simple rectal examination enables the doctor to feel, with a gloved finger, the size and condition of the prostate. This exam, and other tests the doctor may recommend, will also help to rule out the possibility of prostate cancer. Benign prostate enlargement is not cancer and does not turn into cancer.



The prostate is located at the base of the bladder. It surrounds a part of the urethra, the tube that carries urine from the bladder through the penis. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.

These days, prostate problems don't have to interfere with living your life to the fullest. That's what every man should know.

Talk to your doctor, soon. And, for a free booklet with more information, call 1-800-635-4452.



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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*



THE FEDERAL RESERVE

has room to cut short-term interest rates but is hesitating. Commodity prices are weak. That most sensitive barometer of inflation/deflation, gold, is going down in price, and that signals money tightness.

The governors monitor the price of the yellow metal and for a while had been informally targeting it at \$350. So why haven't they eased? Because the economy is

showing signs of improvement. Fed officials, like most economists, are still swayed by the false theory that growth causes inflation.

The economy needs all the constructive help it can get. Chairman Greenspan and his colleagues are now in a position to provide some timely assistance—like right now.

THEY CAN'T TAKE THIS AWAY FROM BUSH

DESPITE HIS reelection defeat, former President George Bush has won a special place in history for what he did to prepare for and prosecute the Gulf war. Not since Henry V's doughty band of warriors decimated the French at Agincourt nearly 500 years ago has there been such a lopsided triumph. The lion's share of credit goes to Bush. It was he who made the decision to challenge Iraq's seizure of Kuwait, he who almost single-handedly put together that extraordinary coalition and he who gave the green light to go to war despite sizable congressional opposition and misgivings by many in the military.

Dennis Brack/Black Star



Bush readies to let loose Stormin' Norman.

The war's disappointing aftermath doesn't diminish the magnitude of Bush's achievement. The dreary truth is that what follows almost every victorious war is something of a letdown. The Civil War begot Reconstruction, still controversial among historians. World War I gave us the vindictive Versailles Treaty and the failure of the League of Nations. The end of World War II was marked by intense debate over whether we should have seized Berlin and could have thwarted Soviet designs on Eastern Europe. And, of course, the 15th-century French eventually routed the English.

BY THE WAY, WE SHOULDN'T FORGET

that the Gulf war battle-tested technology, the wise use of which will promote a more peaceful world. In the 19th century, the British employed gunboats to help suppress the slave trade and to deter or punish foreign bullies and pirates. Today's gunboats are smart bombs and cruise missiles. Using them, we can obliterate aggressive forces with

minimal casualties of our own. Astonishingly, we haven't done that in Serbia, whose murderous acts are threatening a major European war and setting a horrid example for numerous nationalities in the former Soviet Union.

Let us hope the new Administration will recognize and act upon the promise of the Gulf war.

MISPLACED ZEAL

NEW YORK, like many other states, would boom if its government applied a fraction of the energy to growing the economy that it now devotes to squeezing taxpayers.

Over the holidays, Albany sent tax officials to shopping malls in New Jersey and Pennsylvania. Their mission: write down the license numbers of cars with New York plates. Under New York law, residents are supposed to pay the difference between the state's sales tax and those of other states. Albany plans to send notices to those car owners, "suggesting" they pony up extra money.

The Empire State's chief tax collector is threatening

to subpoena records from New Jersey retailers to check who has been sneaking over to buy out of state. The state already combs U.S. Customs Service records (if residents buy something abroad, they are supposed to pay New York sales tax on it). The state's Attorney General may bring charges of "encouraging tax evasion" against a New Jersey store because it advertised the fact that the Garden State's sales levy is less than that across the Hudson River.

Tax officials around the nation are pressuring Congress to pass a law requiring retailers in one state to collect taxes

owed to other states. They also want to force catalogers to collect sales taxes from all customers.

States are "aggressively" interpreting tax laws (i.e., heads, we win; tails, you lose), counting on the fact that most people won't have the time and money to fight them in courts. California, for example, is demanding income taxes on pensions of *former* residents.

Instead of devising new ways to pick people's pockets, states should be privatizing services that can be better

provided by the nongovernment sector. Among the areas ripe for liberation: public schools, highway construction, airports, prisons. States should reexamine regulations that drive away job-producing small businesses.

Almost every industry and service in this country is undergoing relentless, become-more-efficient-or-else, cost-cutting pressures. Why should the public sector be immune?

We need a new tax revolt.

ANOTHER EXAMPLE

of economic myopia is the New York region's hostility to "scalping," whereby individuals buy tickets to an event such as a rock concert and then resell them at higher prices. It is unlawful in New York for ticket brokers to mark up the prices more than a fixed amount. Airlines and other businesses sell tickets at different prices, depending on demand and willingness to buy in advance. Why shouldn't people have the right to



Marilyn K. Yee/NT Pictures

Scalpers at work: Why is this illegal?

pay a higher price if they don't wish to stand in line for several hours?

Yet New York, New Jersey, Connecticut and other states devote hard-pressed law enforcement resources to fighting scalping. They claim price-fixing is necessary to prevent gouging. But states that have no antiscalping laws don't suffer either higher average prices or a lack of availability of tickets for the general public to most events.

DO-GOODER

ONE REASON American troops and those of other nations are now on a mercy mission in Somalia is the tireless work of Philip Johnston, president of CARE. Months ago he recognized the magnitude of the looming disaster and ceaselessly sounded the tocsin to U.N. Secretary-General Boutros Boutros-Ghali and others that only an international military effort could save the day. Thanks in no small part to Johnston's exertions, the Secre-

tary-General wrote the letter that crystallized President Bush's decision to intervene. Johnston is now on loan from

CARE to the U.N. and is acting as coordinator of the humanitarian relief activities in Somalia.

Johnston's around-the-clock activity has taken its toll. He is just now recovering from a bout of malaria. But because of him, countless numbers of people will live who otherwise would have starved to death.



A. John Watson

AN AMERICAN GENIUS

Theodore Roosevelt: A Life—by Nathan Miller (William Morrow & Co., Inc., \$27.50). Impressive biography of one of our most magnificent chief magistrates. Roosevelt was a phenomenal force of energy, intellect, curiosity, courage, farsightedness, Victorian morality, political sagacity and ambition. His overcoming physically debilitating childhood obstacles, particularly near-killing bouts of asthma, still stirs. (It is hard to imagine a president today routinely sparring in the boxing ring.)

His exploits in the West were extraordinary, including fighting with outlaws and herding cattle in freezing, man-killing weather. His post-presidential expeditions in the jungles of Africa and Brazil were truly exploratory—and in the case of Brazil, almost fatal.

Near the end of his last presidential campaign, he was shot in the chest and yet insisted on delivering a 90-minute speech before going to the hospital.

TR's mind was even stronger than his muscle. He was a

superb naturalist, and his numerous history books were usually first-rate. He was a dazzling success as president, brilliantly combining reforming zeal with political street smarts. He was an imaginative conservationist who knew his subject far better than most Greens do today. His

foreign policy speaks to us now; he recognized that America had to take an active world role for its ultimate safety. TR played a skillful diplomatic game on a number of fronts, winning, for instance, the Nobel Peace Prize for bringing about a negotiated end to the Russo-Japanese War.

Excerpt: Roosevelt once interrupted a formal White House luncheon to demonstrate a judo hold by throwing the Swiss minister to the floor several

times, to the vast amusement of the other guests. **Excerpt:** "I thoroughly like almost all the kings and queens I met," Roosevelt observed, but this feeling was mixed with pity for "the tedium, the dull, narrow routine of their lives," which reminded him of the American vice presidency. ■



Betmann

TR thought a big navy would deter Japan.

The Rolex 24 at Daytona.

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Hurley Haywood has his name engraved a record five times on the Rolex Cup.

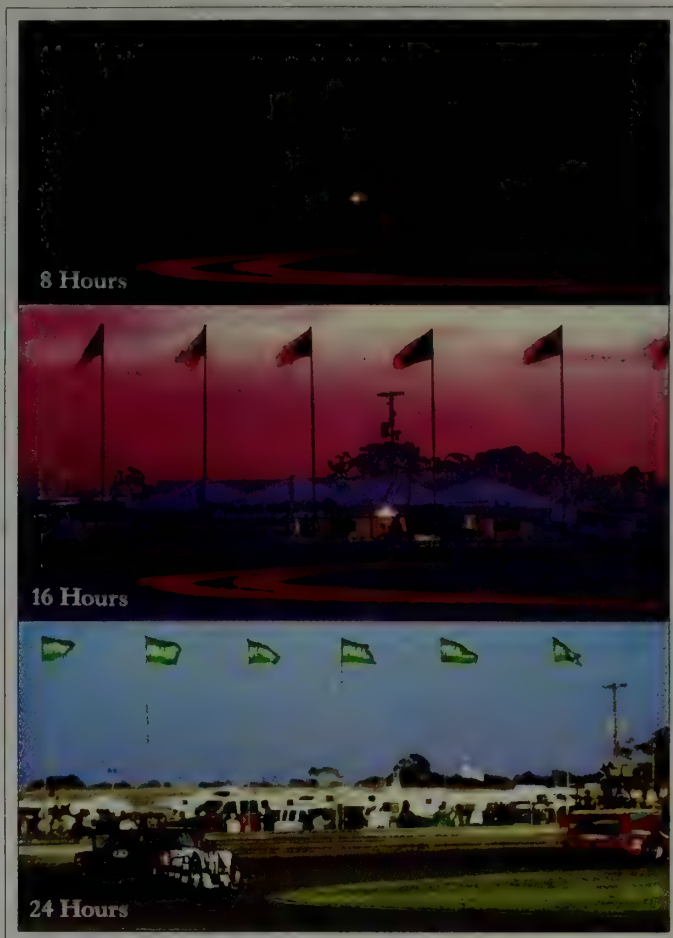
through the solid black wall of night.

Then it starts to rain.

But the true storms at The Daytona International Speedway have raged not in the skies, but down on the track. In 1962, after his engine failed, Dan Gurney nursed his winning Lotus across the line on the power of his starter motor, much to the crowd's delight. The mid-sixties saw classic duels between Ford and Ferrari, with Ford's prototypes puncturing Ferrari's domination with wins in 1965 and 1966, only to have Ferrari's 330 P4s come back for revenge in 1967. And then it was Porsche's turn, with drivers like Peter Gregg and Hurley Haywood dominating the next two decades at Daytona.

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"The difference between this and other races is night and day." *Hurley Haywood*

come together. And now, the world's authority on endurance timepieces, Rolex, is a partner in this premier race, The Rolex 24 at Daytona.

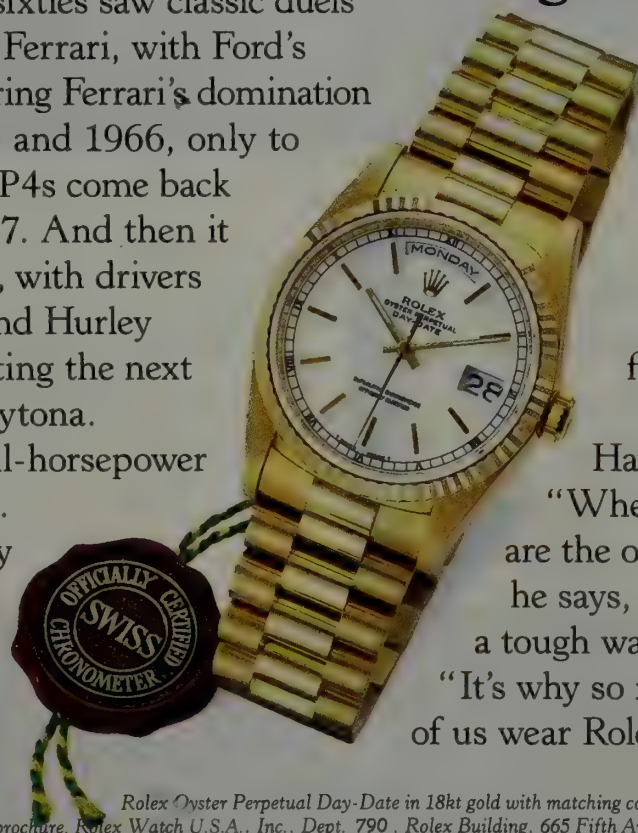
Through each of his five 24-hour victories at the Daytona Speedway, Hurley Haywood has worn his Rolex.

"When heat, dust, and vibration are the order of the day, and night," he says, "you need a tough watch.

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Other Comments

Famous Last Year's Words?

HERE'S WHAT some famous folks might have said on the eve of 1993.

■ William Safire on Ross Perot: "Democracy is being allowed to vote for the candidate you dislike the least."

■ Henry Kissinger on modesty: "If I had been present at the Creation, I could have given some useful hints."

■ Carla Hills on French opposition to cutting agricultural subsidies: "There's something Vichy about the French."

■ Kevin Costner on being a movie star: "The nice thing about being a celebrity is that when you bore people they think it is their fault."

—MORTIMER B. ZUCKERMAN, editor-in-chief, *U.S. News & World Report*

Just Rewards

BY THE TIME the written request for a pardon of Caspar Weinberger reached President Bush, the issue had all but been decided. Bush thought Lawrence Walsh had overreacted in indicting Weinberger [and that] Walsh should close up shop, pronto.

Bush's instinct was to pardon Weinberger alone. That, an aide said, "would have been an easier deal."

"It was a very close call," says a Bush adviser. "It was a risky move [pardon-ing all six], not morally risky, but risky in the sense of his place in history."

In the pardon proclamation, [Bush] said policy differences "should be addressed in the political arena," not the courts.

Maybe I'm naive, but my guess is that Bush will be vindicated. I think the impulse behind the pardon was high-minded. Bush believes in loyalty down, not just loyalty up.

—FRED BARNES, *The New Republic*

Taxation is the price we pay for failing to build a civilized society. The higher the tax level, the greater the failure.

—"Persuasion Versus Force," by MARK SKOUSEN, editor of *Forecasts & Strategies*

Can't Dance? Don't Ask Me

WHEN A WOMAN steps out on a dance floor with a Washington man, maybe she'll float across the floor, like Ginger with Fred. But more likely she'll be hauled around like a trash barrel and have her arm pumped so hard that her rings fly off.

"I don't get it," moans a new woman in town, rubbing her black and blue instep. "Guys wouldn't dream of going out on a tennis court if they didn't know how to hold a racquet. But they think nothing of get-

ting out there on the floor without the slightest idea of what they're doing."

Please, guys, think again. The dance floor is the last place on earth where you can lead and your lady will follow, no questions asked. Besides that, dancing is *my macho*. Ancient Greeks believed that the best dancers were also the best fighters, and among primitive tribes in the New Hebrides, the older men stood by with bow and arrow to shoot the young punks who took a wrong step.

"Not a bad idea," says my friend with the sore foot.

—DIANA McLELLAN, *Washingtonian*

Taxation with Desperation

NEW YORK STATE'S latest method of enforcing sales tax laws is an embarrassing act of desperation. If New Yorkers who shop in New Jersey are being urged to report and pay the difference between the states' sales taxes, shouldn't Jersey residents file for a New York sales tax refund when they make a purchase in New York?

—BARBARA DeLORENZO, letter to *Newsday*

School Daze

CHELSEA CLINTON will attend the private Sidwell Friends School. Sidwell is a haven for children of the capital's rich and famous (tuition is about \$10,800) and a world away from the metal detectors and gangs in the city's public schools. We understand why the Clintons would exercise this private-school choice, but why don't they want poor parents and children to have the same opportunity?

—*Wall Street Journal* editorial

Born Entrepreneur

I WANT to take some business courses. I know a lot about selling, how to talk to people and move things, but there's things about business I don't know. I wonder if maybe some professor could explain why scalping is so bad.

—KEVIN THOMAS, 26-year-old ticket scalper with \$75,000 in savings, quoted in the *New York Times* by John Tierney



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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*



START II—THE HIDDEN FLAWS

ARMS CONTROL AGREEMENTS are always assured of highly favorable press reviews, and with actual arms *reduction* agreements (far more rare), the press is generally euphoric.

So it is with Start II, signed by Presidents Bush and Yeltsin on Jan. 3. Therefore, it is with considerable trepidation that any writer should embark on a detailed analysis of the U.S.' latest arms control agreement with Russia and, subsequently, the three other republics of the former Soviet Union that have nuclear weapons.

Nevertheless, since this agreement will, if actually carried out, constitute the most sweeping change in our strategic forces since we deployed our first nuclear weapons, it is essential that we consider carefully Start II and all of its implications.

First of all, there are many good features in the agreement:

- The former Soviet Union will have to reduce its total of nuclear warheads from 10,909 to 3,000 by the year 2003, while we will move down from 9,862 to 3,500. (These lowered totals can be reached by the year 2000 if we accelerate our payments to Russia for the dismantling.)

- All land-based multiple-warhead nuclear missiles are supposed to be eliminated.

- Because the agreement scraps all the SS18s of the former Soviet Union and removes all but one of the warheads from up to 105 SS19s, it is described by some as removing Moscow's "first strike capability."

- In some instances Russia was willing to cut more deeply than we, evidencing a continuation of its willingness to sign agreements that actually reduce arms.

This is a very considerable list of genuine achievements, but there are a number of potentially serious problems that bear closer scrutiny than most ecstatic devotees of the arms control process have been willing to undertake thus far.

The agreement, the outlines of which were approved by Bush and Yeltsin last June, was not completely drafted until the last days of 1992. As always, the problems the American side had with Moscow's version were called "hurdles" or "obstacles" by our press. But these problems were serious, and when, in the interest of getting an agreement as quickly as possible, we abandoned our positions, it

weakened what was otherwise an admirable document.

The most serious compromise allows Russia to keep 90 of its SS18 silos and all associated launch facilities. True, these silos are supposed to have enough concrete poured in the bottom and narrowing steel rings inserted in the top so that they cannot be used for the SS18s.

But as Frank J. Gaffney Jr., director of The Center for Security Policy, astutely points out, the modified SS18 silos can still be used to threaten us with the smaller but deadly SS19. Indeed, that was why the Russians demanded they be allowed to keep the 90 large silos: They were too

poor to build new silos for the shortly-to-be-converted SS19. Even worse, as a result the Russians will be able—should the wrong people come to power—to rip out the concrete and the steel rings and use the 90 silos for SS18s they may have hidden and not declared.

The other "hurdle that was swept aside" allows Russia to *keep* over 100 of its SS19s and their full infrastructure, although the June "framework" agreement required

Russia to give up all of them. While Moscow will have to take off 5 of the 6 warheads on the SS19s, if Yeltsin should be forced from power and succeeded by an old-school Russian, of whom there are quite a few, these deadly SS19s could quite quickly regain their full multihead capability.

Still another Russian demand was agreed to at the last moment: We said Moscow *could* have the right to inspect our B-2 bombers, the world's most effective attack planes, because we can put covers over the vital parts of them. This reverses a longstanding U.S. position that *no* B-2 inspections should be allowed.

Much will turn on whether Mr. Yeltsin or other reformers committed to securing free-market economics, individual human rights and an absence of military aggressiveness prevail. If they do, the very real risks to our military security inherent in these compromises may not be realized. Yet Yeltsin's government is not firmly locked into leadership, and Ukraine has not even ratified Start I, which is required before the Start II reductions can begin.

So we should pay very close attention to the details of Start II—and its implementation.



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The bond market is less bullish than it seems

THE FLURRY OF NEW CORPORATE BONDS issued in the first few trading days in January may be a less bullish signal for the economy than it appears. It comes on top of a record year in 1992, when more than \$850 billion in new stocks and corporate bonds were issued, according to the Securities Data Co.

Some economists have argued that the torrent of new bond offerings is a bullish sign because the bonds are being issued to finance a boom in capital investment. A more realistic assessment: They're being used to refinance existing, higher-cost debt before interest rates head north again.

"A record \$215 billion in new corporate bonds were issued in 1992, but well under half of it [\$95 billion or so] amounted to net new

debt," says John G. Lonski of Moody's Investors Service. "That makes 1992 only the sixth-highest year ever when it comes to corporations raising *net* new bonds."

The only businesses significantly increasing net bonds outstanding, Lonski says, were banks and financial companies. They were adding subordinated debentures as second-tier capital, mostly in order to bring their capital ratios up to meet new higher legally required standards.

The trigger for the new issues flurry that ensued on Jan. 4 was a sharp fall in interest rates; the 30-year Treasury had fallen from 7.75% in mid-November to just under 7.3%. Many companies already had shelf registrations (\$305 billion at year-end) ready for new finance, and took advantage of the opportunity.

Grabbing low rates while they can

NOBODY WILL SAY IT FOR THE RECORD, of course, but encouraging corporate treasurers to grab the present low rates is their fear of what might happen to inflation and interest rates now that the Democrats are back in charge of both the White House and Congress. The Clinton team has—so far—been extremely careful not to spook the bond market. They are well aware that doing so would totally wreck their plans to revive the economy, which are already facing the reef of a budget deficit that refuses to shrink. (How can it, given Congress' addiction to spending?)

But the corporate treasurers have good reasons to fear higher interest rates, especially in a year or so. In 1992 the economy managed to grow around 2%. This year GDP growth will at best average 3%. The Federal Reserve appears

to be planning on the basis of just 2.5% growth in nominal money growth for this year, and a nominal 5% growth in GDP. At best that implies real GDP growth of no more than 2.5%, and inflation at the same level.

The most depressing factor is the anemic growth in money supply. There is concern that the switch of money out of the banks might have disrupted historic relationships between growth and money. But studies by the Federal Reserve Bank of St. Louis show that real M2 (which includes bank deposits and savings, including money market funds, after allowing for inflation) remains by far the most reliable indicator of future growth. And real M2 barely grew at all on average in 1992. In the meantime, the Fed is sitting on its hands, seemingly waiting for inspiration.

Slow growth will lead to higher rates

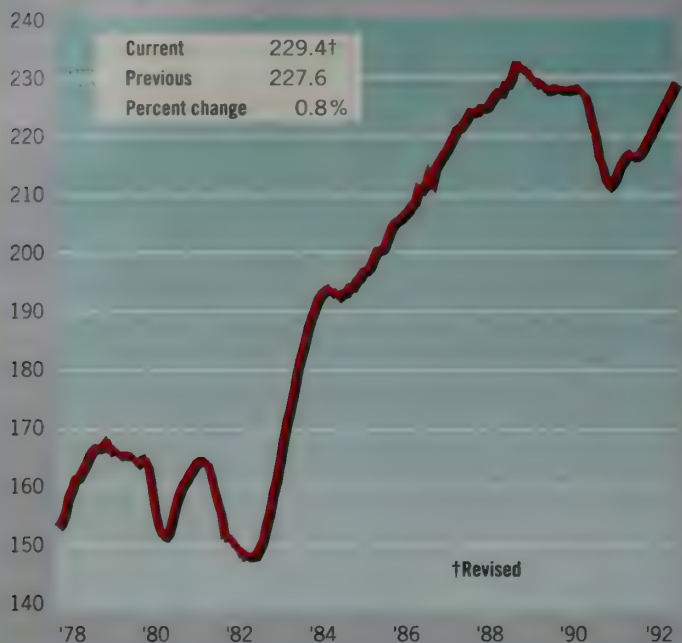
DOESN'T ALL THIS suggest lower inflation and, therefore, lower interest rates? Not necessarily. Slow growth of 2.5% will not be anywhere near sufficient to reduce the federal deficit. Nor will it generate the new jobs that the Clinton team will need if their program is to be a success. Slow growth will lead to a shortfall in anticipated tax revenues on the one hand, and higher than anticipated public spending on benefits such as unemployment on the other. That will leave no leeway in the budget to finance such promised job creation programs as extra infrastructure investment.

So Congress will continue to pass the buck to corporate America. In short order there will be new laws mandating family and disability leave; a ban on replacing striking workers; added

OSHA regulations; higher Social Security contributions. Some action to mandate corporations paying for universal health care seems inevitable. On top will come such consumption- (and growth-) depressing items as a surcharge on higher incomes.

When that burden has taken its toll on growth prospects, maybe as soon as a year hence, liberals in an increasingly activist Congress will be looking for ways to spend, regardless of the consequences for the deficit, for inflation and for interest rates. Those corporate treasurers and consumers who have taken advantage of today's window of low rates—be it to refinance a personal mortgage or a corporate bond—could well look like geniuses come 1994.

The Forbes Index (1967=100)



Inventories of durable goods fell for the third consecutive month in November. That, says Edward Campbell, senior economist at Brown Brothers Harriman, is a positive indicator. "The recent decline in inventories seems to be one more sign that the economy has ended a pessimistic business cycle and should now gain momentum," he says. Meanwhile, the three-month total of new orders for durable goods rose 1%. Campbell expects an increase in big-ticket purchases once corporations get a better reading on Bill Clinton's investment tax credit plans (*see story, p. 58*).

Other key rates

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.0%
Auto sales year to date vs 1991 ¹	Ward's Automotive	2.3%
Index of leading indicators Nov vs Oct	Dept of Commerce	0.8%
Trade balance 12 months ended Oct 1992	Dept of Commerce	-\$78bil
All-commodity producer price index Nov vs Oct ²	Dept of Labor	-0.3%
GDP 3rd quarter vs 2nd—annualized growth	Dept of Commerce	3.4%
M2 (3-month change)—annualized growth ³	Federal Reserve	3.6%

¹ U.S.-based manufacturers, excludes imports, as of 12/31/92. ² Wholesale goods. ³ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

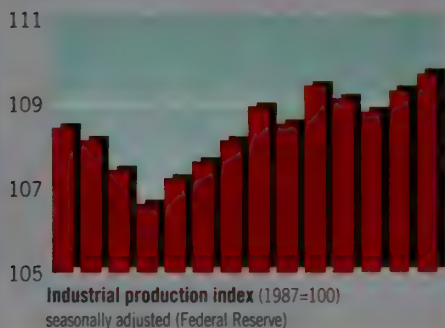
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

Services • Total index



Inventories • New orders



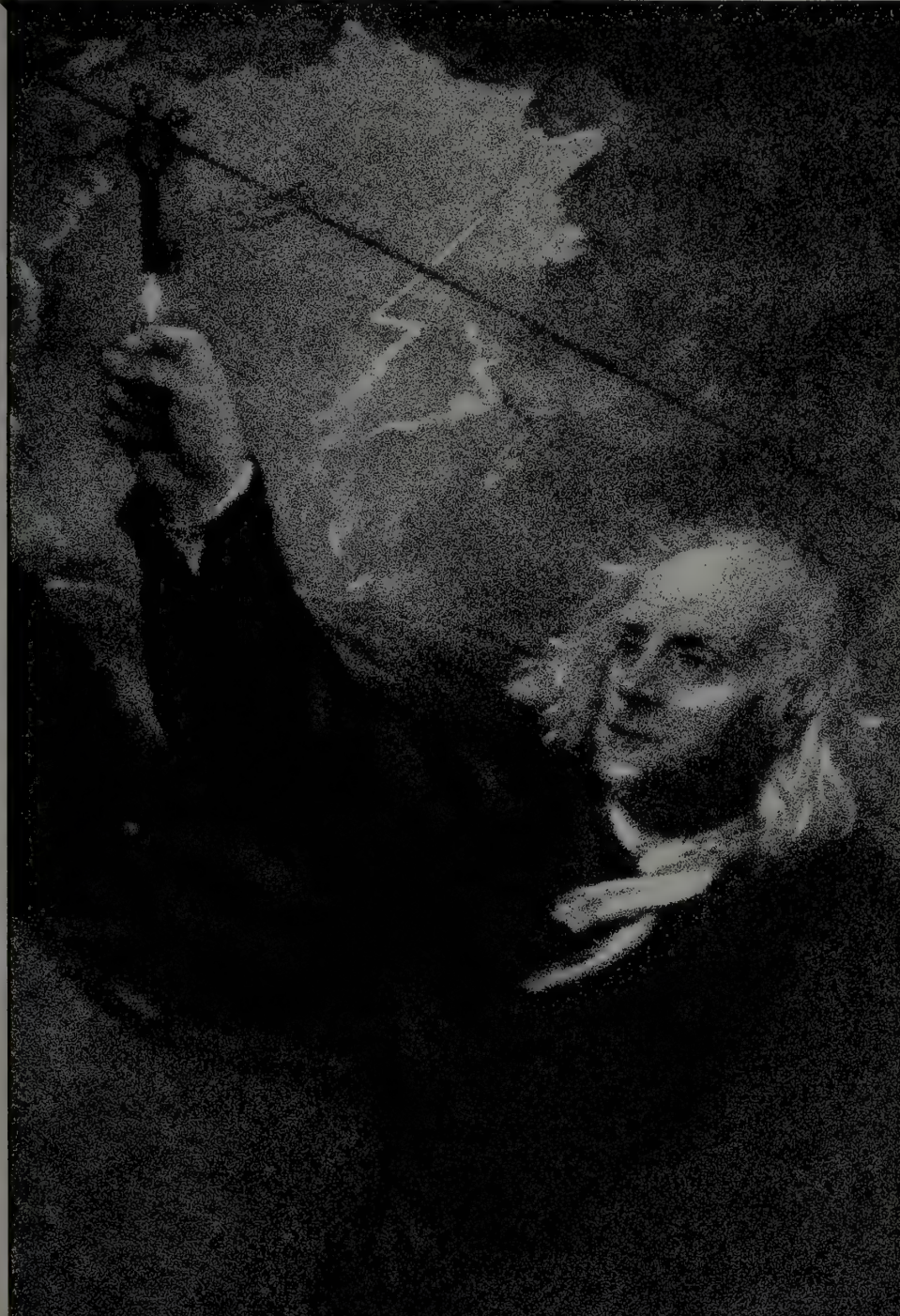
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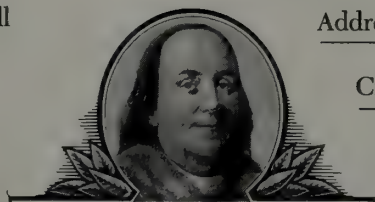
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In the seemingly safe world of municipal bonds, there is a netherworld where disclosure is nonexistent, prices manipulated and investors sheep to be shorn.

Hello, sucker

By Matthew Schiffrin with Lisa Coleman

ATLANTA's Christopher Brogdon, 44, and Edward (Gene) Lane, 56, former bond salesmen, were barred from the securities industry by regulators. Lane and Brogdon have not stopped mulcting investors. They have merely lowered their profiles, much like First Jersey's Robert Brennan (*FORBES*, Oct. 26, 1992). Where Brennan ambushes the unsuspecting with low-priced stocks, Brogdon and Lane prowl the municipal bond business.

Lane and Brogdon's latest coup involved Dearfield Nursing Home in Columbus, Ga. Barred from selling securities, they handed the underwriting job to a collection of sleazy brokers, who raised \$4.6 million from hundreds of bondholders to buy the facility in June 1989. The bondholders may not yet know it, but they could lose most of their money. "Those boys [Brogdon and Lane] don't pay their taxes, so I'm gonna sell it," Muscogee County Deputy Sheriff John (Ed) Summers told *FORBES* just before the new year.

Just a few days before the sheriff's planned Jan. 5 auction, the duo paid half of the \$76,500 they owed the Muscogee County Tax Commissioner for 1991 and 1992. They have 90 days to come up with the rest.

A lot of folks buying high-yield municipal bonds apparently don't know they are buying into shaky deals like this one. The Dearfield nursing home has managed to remain current on semiannual interest payments, but it does so by drawing down its reserve account or possibly siphoning funds from other bond deals. The nursing home has been losing money for years and is currently in technical default. The owners failed to make required sinking fund payments to the trustee and have drained its debt service reserve fund from \$400,000 to

Terry Palko



Brogdon's muni-financed furniture factory in Oconee County, S.C.
Bondholders get stiffed, while the promoters wax rich.

\$16,000. To stay alive, Dearfield pledges its Medicaid receivables to Towers Financial Services for loans bearing a rate of 24% annually.

Who are the brokers who peddle this garbage? Marion Bass Securities, based in Charlotte, N.C., is the main marketmaker in the bonds. Another is Phoenix, Ariz.-based Lawson Financial. Marion Bass continues to offer the Dearfield bonds to unwary investors at near par.

Marion Bass brokers have been close associates of Brogdon and Lane on most of their bond deals, and its Atlanta office specializes in junk municipals. Some of Marion Bass' brokers are refugees from now defunct but still notorious muni-bond boiler rooms like Hereth, Orr & Jones, Swink & Co. and Henderson Few & Co.

Welcome to the nasty underworld

of the municipal bond business. According to the Bond Investors Association, about \$4 billion in unrated tax-exempts have defaulted in the past five years, many involving fraud or near fraud. The bonds, issued in relatively small amounts, often come wrapped in seemingly good causes: nursing homes, retirement centers, Alzheimer's care homes and hospitals.

These bonds are marketed to inexperienced investors attracted by high coupons—the Dearfield bonds yield about 10% at a time when quality tax-exempts pay around 6%. The victims either don't read the prospectuses or don't understand them.

FORBES sent a copy of the prospectus of Brogdon and Lane's most recent bond issue to a muni-bond analyst at Boston-based Colonial Management. It was a September 1992,

\$4.8 million 9.25% coupon, issued to buy Liberty Manor, Inc., a 169-bed nursing home and Alzheimer's care center in Midway, Ga. The savvy analyst noted several red flags: The prospectus lacked historical financials, the borrower allegedly had violated securities laws, and the project would lose money even at 98% occupancy.

Liberty's 1991 Medicaid cost report, filed with the State of Georgia, shows the project had \$3.7 million in debt and was losing money at a rate of over \$300,000 a year despite 87% occupancy.

Yet Marion Bass, Lawson Financial and others sold for Brogdon and Lane \$4.8 million in new 9.25% coupons at par to finance the Liberty purchase last September.

The buyers are mostly retirees in such states as Virginia, Florida and Arizona, hooked by cold calls offering 8% to 11% tax-free yields.

Despite being banned from the securities business, Brogdon and Lane have since 1986 been responsible for at least 27 tax-exempt bond deals worth nearly \$70 million. They borrow the money mostly through three thinly capitalized entities: Winter Haven Homes, Gordon Jensen Health Care and National Assistance Bureau. So far at least 10 Brogdon-Lane deals have defaulted or have been refi-

nanced at lower rates. At present, at least 9 have drained their debt service reserve funds.

What happens if a sucker wants to cash in? A Marion Bass broker might persuade him to take another junky municipal issue in trade. But the sad thing is that hundreds, perhaps thousands, of people are sitting with deeply troubled bonds, not even knowing they are that way because they are still getting interest payments from reserve or other funds. When the reserves run out, of course, the bonds default and the price collapses. That fate has befallen such Brogdon-Lane issues as Oconee County First Mortgage bonds issued in 1987, and the six Gordon, Ga. bond issues for Hargis Enterprises, which have only recently been reorganized. In that case, Marion Bass will probably just tell the bondholder he or she is out of luck.

Dan Hendrick is an Atlanta broker who frequently speculates in distressed municipal bonds, a field he knows intimately. Says Hendrick: "Lane and Brogdon continue to issue new debt while their existing bonds languish with deficiencies that they don't even attempt to correct. The majority of these [Brogdon-Lane] issues hang by a thread."

Obviously, those who sell the bonds don't care. The Liberty nurs-

ing home issue yielded fees of \$270,000 to underwriters Lawson and Marion Bass. How do Brogdon and Lane get theirs? Mostly from a multitude of fees they milk from the entities associated with the deals. Pace Consulting, a firm headed by Brogdon's wife but run by Brogdon, siphoned off \$75,000 from the bond proceeds.

Liberty Manor will be operated by another Brogdon-Lane firm called Capitol Care Management, which earns 6% of the gross revenues for managing the property. Capitol Care manages virtually all 25 Brogdon and Lane-owned nursing homes and is projected to earn more than \$2.1 million in fees during 1993. Meanwhile, the entities that pay the fees slip toward insolvency.

A nervous Brogdon agreed to talk with FORBES at the pair's north Atlanta offices, flanked by seven advisers. Included were Marion Bass manager Richard Matthews, Brogdon's accountant, Terry Henderson, a CPA at Macon, Ga.'s Mauldin & Jenkins, and three lawyers representing Brogdon and his underwriters.

The Brogdon entourage became vague when asked about financial difficulties, such as the nonprofit entity Gordon Jensen, which owns 11 of the Brogdon-Lane facilities and is losing

Munis from the murky side

Bond	Project	Issue date	Amount issued (\$mil)	Status	Comments
Gordon, Ga/10s*	railcar plant	'86-'89	\$10.0	R	Underwritten by duo defaulted in 1989, now pay 3%
Crisp County, Ga/10½s	nursing home	6/87	1.3	TD	Lane was underwriter, reserve drained
Douglas-Coffee Cty, Ga/10½s	nursing home	9/87	1.5	TD	Lane was underwriter, reserve drained, taxes delinquent
Gardendale, Ala/10½s	nursing home	4/88	6.8	R	Duo underwrote then put into bankruptcy; reserve depleted
Sumner, Tenn/10½s	retirement ctr	5/89	2.6	TD	Old default duo refunded; \$262,000 reserve down to \$9,000
Crawford County, Ga/10s	nursing home	6/89	2.1	TD	\$175,000 reserve now \$5,000; Medicaid receivables factored at 24%
Columbus, Ga/10s	nursing home	6/89	4.6	TD	\$400,000 reserve now \$16,000, receivables factored, tax problems
Brevard County, Fla/10¼s	retirement ctr	1/90	3.6	TD	\$318,000 reserve drained
Clay County, Fla/10s	nursing home	1/92	3.0	C	Scheduled to open 8/92, still not open
Sanford, Fla/10s	retirement ctr	2/92	2.3	C	Refunding; expressway to be built 100 yards from center
Liberty County, Ga/9¼s	nursing home	9/92	4.8	C	Lane and Brogdon increased debt despite facility's losses

*Six bond issues. Owned by Hargis Enterprises. Status: R, reorganized; TD, technical default; C, current.
Sources: prospectuses; Bond Investors Association; government authorities.

These Brogdon-Lane deals offered buyers tax-free yields of 10% or so. Many still don't know just how troubled they are.

around \$800,000 a year. Nor did they clarify what happened to Lamar Cope, the former co-owner of a small furniture-making firm in Oconee County, S.C.

In 1987 Brogdon agreed to purchase Cope's company for \$600,000 and finance its expansion with \$1.3 million in 10.5% bonds underwritten by Lane's brokerage firm, Bay City Securities. Brogdon and friends siphoned off at least \$150,000 in fees, billed the company for equipment that Cope and others claim was never delivered, and depleted its \$135,000 reserve fund. After all this, in 1990 Oconee defaulted on its bonds.

The furniture factory is vacant and vandalized, has been investigated for toxic dumping, and was recently appraised at about \$250,000. Bondholders have yet to receive a penny of their principal. Cope, now part-owner of a children's furniture company, claims he was never paid in full and is understandably bitter.

Brogdon and Lane recently acquired the shell of an over-the-counter company called Retirement Care Associates, Inc. It appears they plan to use it to expand beyond their bond scams into a stock scam. Retirement Care has purchased Brogdon-Lane's in-house management company, Capitol Care, for stock and notes with a stated value of \$1 million. According to SEC documents, the transaction will ultimately be financed by a public offering.

In 1990 the Georgia State Securities Office opened an investigation of the pair, but eventually closed it without any action because Lane and Brogdon were technically outside its jurisdiction. Thus do such operators easily slither around the nation's vast bureaucracy that is supposed to be protecting investors.

We know that there are other Brogdons and Lanes out there and other underwriting firms like Marion Bass. So remember: Just because a bond is tax-exempt doesn't mean that a government or a sound business stands behind it. And don't assume the cops are looking out for your interests. Use common sense: Nobody who could borrow at the prevailing 6% on tax-exempts is going to pay you 9% or 10% unless there is something seriously wrong with the deal. ■

Phibro's old chief is back in the oil business, this time with a new form of trading.

Where the action is

By James R. Norman

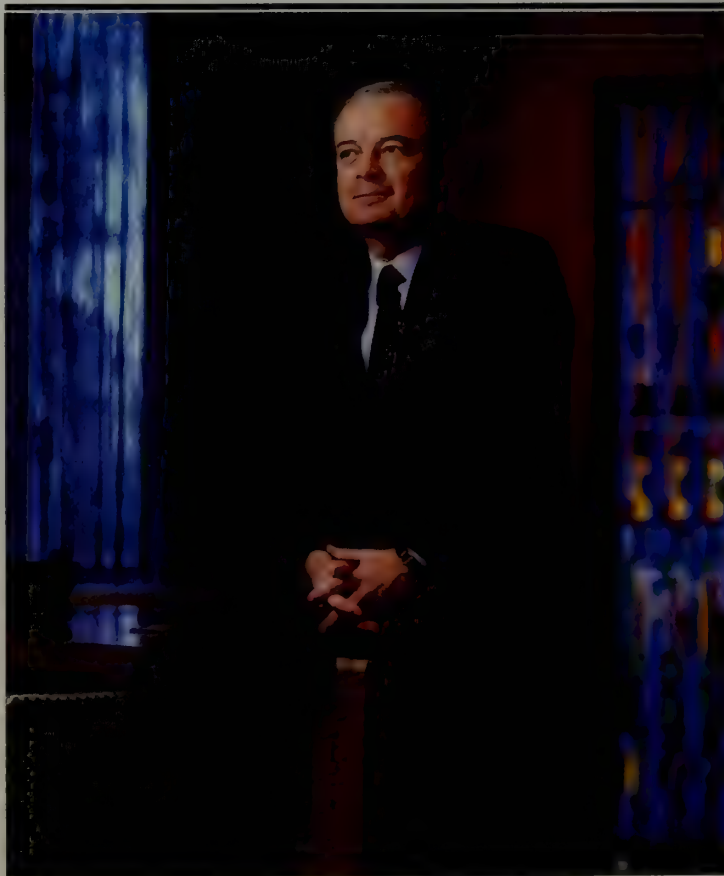
SALOMON INC. is dismantling the Phibro Energy oil refining and trading empire. Phibro's former chief, Thomas D. O'Malley, drawing on the lessons of Phibro's decline, is building a different kind of oil company for himself. O'Malley's vehicle is Tosco Corp., a \$2 billion (estimated 1992 revenues) West Coast refiner he took control of after quitting as Salomon vice chairman in 1986.

O'Malley, now 51, succeeded notorious Marc Rich as head of Phibro Energy. He expanded Phibro into refining to hedge its oil trading risks. Phibro's surging profits made O'Malley Salomon's top-paid employee; in

1985 he took home more than \$4.5 million in compensation.

He left Salomon with a small fortune, and with partners formed Argus Resources and began trading oil contracts. But oil products markets had become much more efficient and oil trading was less profitable. Argus quit trading but didn't give up on oil.

When the stock market crashed in 1987, O'Malley and his Argus partners scooped up 26% of Tosco's stock—8 million shares at \$11 each. This gave them control of a state-of-the-art, 150,000-barrel-a-day refinery in Avon, near San Francisco. O'Malley took over Tosco's manage-



John Rae

Tosco Chairman
Thomas D. O'Malley
He made a fortune trading oil for Phibro Energy. Can he do it again in the refining business with Tosco?



The Bayway refinery in Linden, N.J.

Exxon's aging cast-off could make Tosco a player in the oil markets.

ment in 1989. That year Tosco considered selling out to another oil company, but antitrust worries scuttled the deal. Unable to find a buyer willing to pay his price, O'Malley settled into running Tosco.

O'Malley explains that the days of a giant oil trader like Phibro are past. "The paper trader does not have much future," he says. "You must be a physical trader. I'm not re-creating Phibro; that business is over. Tosco is first and foremost a refiner."

O'Malley means that with refining and storage facilities, Tosco will be able to buy crude oil in bulk at advantageous prices and then refine it profitably into gasoline and other products—or, if lucrative opportunity strikes, Tosco could trade its crude. Either way, Tosco would have the flexibility to put crude to its most profitable use.

In mid-December Tosco agreed to buy Exxon's Bayway refinery in Linden, N.J., once able to process 300,000 barrels of crude a day, twice the capacity of Tosco's Avon plant. O'Malley is getting Bayway for a song—\$175 million, less than \$900 per barrel of daily refining capacity, with Exxon agreeing to pay for all past

environmental damage and cleanup.

Some oilmen are perplexed by O'Malley's move into refining. Refining margins—the spread between the price of crude and the price of refined fuels—are too thin to cover direct processing costs for many refiners. Most oil companies these days make their money either from crude oil or by selling refined fuel at retail. Who wants to own refineries, the least profitable part of the business?

Tosco, though, is comfortably in the black. If the Bayway deal closes as planned in April, Tosco's profits could double, to \$100 million a year (\$3.30 a share), on \$4 billion in sales. That's because its refineries are large, efficient and were purchased cheap.

For the future O'Malley is betting on a shakeout of marginal refiners by 1995, when new federal requirements for cleaner gasoline will close many refiners. Survivors should be able to get better prices for refining crude oil, and Tosco looks like a survivor.

At Bayway, which Exxon had threatened to close, O'Malley thinks Tosco can make a profit by trimming the 950-worker payroll and boosting the amount of crude processed by 20%. He also hopes to cut the cost of

supplying crude to Bayway by using a newly acquired Long Island terminal to berth larger ships. Under Exxon, Bayway's crude was delivered by smaller, less efficient ships. Saving a penny a gallon can double profits. Claims O'Malley: "We'll make money [at Bayway] from day one."

O'Malley remains in his heart of hearts a trader. Tosco has just formed a 50-50 joint-venture trading company with Continental Grain Co. Tosco and Continental each put up \$20 million for the venture, which barter Russian and Third World crude oil for farm goods. The venture's crude trading is run by a Phibro veteran from an office adjoining Tosco's headquarters in Stamford, Conn.

Tosco stock, at 19, sells for less than twice what O'Malley and his friends paid over five years ago—not much of a return by traders' standards. But if O'Malley can turn Bayway around and if refining margins improve, analysts agree that Tosco's value will almost certainly increase. In the meantime, O'Malley's greatest challenge may be to shun the temptation to gamble Tosco's profits away on risky oil trading. Traders rarely change their spots.

Wall Street's hot concept these days is "casual dining." The restaurants are okay, but avoid the stocks.

Indigestion ahead

By Howard Rudnitsky

THE \$175-billion-a-year restaurant industry is growing at less than 5% a year. Why, given this modest growth, are so many restaurant stocks so hot? Fresh Choice, a \$33 million (sales) chain of 21 California soup and salad restaurants, went public on Dec. 9 at \$13 and nearly doubled by the end of its first trading day. Recent price, 22¼, 62 times earnings.

then these are concept stocks. You aren't buying earnings or assets. Concepts are moonbeams. And who is to say what a moonbeam is worth?

The current concept is known as casual dining. That doesn't simply mean a place where you can come without a tie. You can do that these days in many of the fanciest places. Casual dining in this case means no

Cracker Barrel Old Country Store (FORBES, Apr. 27, 1992), Shoney's, Golden Corral, Denny's, Bob Evans and International House of Pancakes. Some trade at very rich multiples of earnings.

Up a price notch are the moderately priced chains. Average tab, \$6.50 to \$18 per person. Typically open for lunch and dinner only, these restaurants serve liquor, go extra heavy on the ambiance and have picturesque names like Fresh Choice, Romano's Macaroni Grill, Grady's American Grill, Applebee's Neighborhood Grill & Bar, Ruby Tuesday, Bertucci's, O'Charley's, Mick's and Outback Steakhouse.

This category is currently red-hot and includes the highly successful Chili's Grill & Bar, owned by Brinker International, plus General Mills' The Olive Garden and Red Lobster (*see box, opposite*). If you think of The Olive Garden as a typical, family-owned Italian eatery, that's fine with General Mills.

Steven Rockwell, an Alex. Brown & Sons restaurant analyst, has just produced a lengthy report on the casual-dining market. He builds a socioeconomic argument for the group. He notes that people 40 to 60 are the age group most often frequenting casual-dining restaurants.

This group is expected to grow by over 20 million during the 1990s. But why should they patronize cookie-cutter chain restaurants rather than their local eateries? Price and dependability. With economies of scale and market research the chain casu- als have certain advantages over independent restaurants. Just as McDonald's made eating a hamburger a similar experience from Portland, Me. to Portland, Ore., so the casual chains hope to standardize spaghetti and steak.

What makes the concept suddenly so sexy? At the moment the casual-dining chains have only a relatively small piece of the restaurant business. Whereas chains have over 70% of the fast-food business' \$76 billion, the casual chains have less than 30% of the \$80-billion-a-year table service restaurant industry.

Only one casual-dining chain, General Mills' Red Lobster, currently generates over \$1 billion in sales from full table service. In theory, these



Brinker International's Chili's Grill & Bar

Lots of hokey decorations and family fun for not too much money.

Lone Star Steakhouse & Saloon went public last March and has since almost tripled in value. At 34½, Lone Star's market capitalization is \$476 million, revenues \$23 million (latest 12 months).

These prices make no sense, but

reservations, with a kind of upscale fast food, with table service, lots of hokey decor—and bring the kids.

Most of the casual restaurants are relatively inexpensive, with tabs averaging under \$7 per person. Lower-price family-dining chains include

Chinese, anyone?

GENERAL MILLS has made a huge success in casual dining. Last year its two chains, Red Lobster and The Olive Garden, grossed \$2.5 billion, accounting for nearly a third of the parent company's revenues. Operating profits at the restaurants rose from \$154 million in fiscal 1990 to \$191 million in fiscal 1992. Red Lobster, profiting from the popularity of seafood, now has 638 restaurants offering lobster, swordfish steaks and red snapper, and Caesar salads. Average bill per person, \$12.75.

Launched in 1982, The Olive Garden chain capitalizes on the current popularity of pasta and Italian food. It now has 366 outlets, 68 of them new last year. Next on General Mills' plate? Their restaurant people are testing a casual-dining concept called China Coast.

Should marketing tests prove out, General Mills could eventually roll out scores of China Coast res-



Interior of an Olive Garden restaurant
If you think of it as a typical family-owned Italian eatery, that's fine with General Mills.

taurants. "The market for Chinese sit-down dining in the U.S. is larger than the market for Italian," says Mark Willes, General Mills vice chairman, "and virtually all are mom-and-pop operations."

Ribs and fajitas, anyone?

NORMAN BRINKER'S Chili's Grill & Bar chain has made a success of a more

eclectic approach. It runs over 300 Chili's, 76% of them company owned, in 41 states. They serve chicken, beef and seafood entrées and ribs, fajitas, hamburgers, sandwiches, salads and desserts. Result: Earnings have virtually doubled since 1990.

After 18 years, there are limits to how fast Chili's can grow. So Brinker is developing two newer ca-

sual-dining chains—Grady's American Grill and Romano's Macaroni Grill. Macaroni Grill has been developing nicely, but Brinker says he's had to adjust menus at Grady's, which had too many heavy foods. Last July Brinker launched a fourth chain, Spageddies, a lower-price pasta restaurant similar to General Mills' Olive Garden. —H.R.

chains could become little McDonald's or Burger Kings.

In theory. Certainly the traditional mom-and-pop restaurant, upscale and downscale alike, is squeezed by minimum wages, health insurance and other costs mandated by politicians and the courts. That will cut further into the independents' thin net profit margins, which already run well below the 6% to 7% of casual-dining chains, according to Montgomery Securities restaurant analyst Michael Mueller.

But there are limits. Mark Willes, vice chairman of General Mills and the executive responsible for that company's Olive Garden casual-dining chain, says: "There is so much service, and there's so much more complexity and variety involved in

full-service dining that it often can be better managed by smaller restaurant operators rather than by giant fast-food chains."

System and efficiency has its advantages, but so also do the personal touch and idiosyncracies of individual restaurants owned by real people. Anyone who has ever run a restaurant knows that it is a tough, demanding, long-hours business, requiring constant attention from the owner. You have to love this business to be good at it.

Some casual-dining operators already bear the scars of poorly managed expansion. Kansas City's Gilbert/Robinson Inc., owners of Houlihan's, went heavily into debt in a series of leveraged buyouts, went bankrupt and recently emerged from

Chapter 11. TW Holdings, a 1989 Conniston Partners LBO, owns the 1,400-outlet Denny's and Quincy's Family Steakhouse chains. TW Holdings restructured its debt, selling additional stock to KKR in 1992, and now appears to be doing better.

Quantum Restaurant Group, based in Roslyn Heights, N.Y., was buried in debt after a 1988 leveraged buyout. In 1991 Quantum lost more than \$20 million. Last June Quantum Restaurant went public, raising \$31.5 million in equity and retiring most of its debt. Now the company's focusing mainly on two restaurant chains: its fine-dining Morton's of Chicago steak outlets, and casual-dining Mick's restaurants.

The casual-dining trend is one we wouldn't ride too far.

In a frothy market, what looks cheap to a value investor? To the savvy players at Sanford Bernstein, defense stocks—and they're watching oil and health care.

What's cheap?

By Robert Lenzner

AT A LOW ENOUGH PRICE, anything is a buy. Applying that essentially Ben Graham approach, Sanford C. Bernstein & Co., a giant New York City-based money manager, was last year a big buyer of defense stocks.

Bernstein has a lot of money to play with—\$10 billion in equity accounts. Its big bet on defense has in recent years put it in control of as much as 9% of General Dynamics, 8% of Lockheed and McDonnell Douglas, 7% of Northrop, 4% of Martin Marietta and 3% of Loral. In classic Bernstein style, the firm looked for an entire sector ridden with market pessimism and bought not just one or two stocks but the whole lot.

The concept is simple. As defense outlays fall, the industry will need less working capital, less plant and equipment and less overhead. But it still has considerable contractual backlogs. If a defense contractor is skillful in shrinking its work force as fast as its revenues are shrinking, it is in a position to enjoy what the firm prizes above all: rising excess cash flow, defined as earnings plus depreciation less capital outlays. Think of defense contractors as declining annuities that got too cheap.

The military sector isn't the bargain it was two years ago, when Bernstein did a lot of its heavy buying. Northrop has doubled and General Dynamics has quintupled from early 1991 lows. But the defense stocks are still relatively cheap in a market that is very expensive. Northrop, for example, is trading at less than 8 times the 1993 earnings forecast in *Value Line*; the

median multiple is 16. Most of the big defense contractors trade at less than 150% of book value, in a market where an average stock is priced at 240% of book.

The continuing consolidation of the industry should leave the survivors with more earning power. "When industries consolidate, fewer players make more money," says Zalman Bernstein, the 66-year-old founder and largest shareholder of Bernstein & Co.

After several years in which growth stocks shone and a value player like Bernstein lagged, the firm racked up a performance near 25% for its average equity account in 1992, triple the return on the Standard & Poor's 500 index. But the play in defense is not over, the Bernstein money managers firmly believe. "All these stocks are still selling below fair value," says Lewis Sanders, who took over as chief

executive from Zalman Bernstein Jan. 1. "I still see another 15% to 20% in them, which is more than general market expectations."

This is how Sanders sees Lockheed, which builds air transports, antisubmarine weapons, ballistic missiles and rocket boosters: Earnings plus depreciation for the year just ended will probably come in at \$11.50 a share. Back out capital expenditures, and you have free cash flow of \$6.75, available for paying dividends, buying in shares or buying other businesses. Lockheed recently traded at eight times this \$6.75 figure. Martin Marietta, with \$8 a share in free cash flow and a price of 67%, is also a good bargain on this score.

But the bottom fishers made one colossal mistake. After becoming the largest shareholder in General Dynamics, Bernstein sold its position for a big profit in the 50s, before Warren Buffett became a big buyer and the company chose to partially liquidate. The stock recently closed at 105%.

General Dynamics is close to fully valued now, says Sanders, but McDonnell Douglas isn't. At a recent

52½, the stock goes for four times the projected free cash flow of \$12.50 for 1993. Cost overruns in McDonnell's C-17 military transport are largely behind the company, he says.

What's the next undervalued group for Bernstein & Co.? Sanders says that he is waiting for an energy oversupply to send oil share prices reeling; he's also keeping an eye on health service stocks, which did very badly last year but need a further battering on Wall Street before they look Ben Graham-cheap.

Of course, it's easy to be too early as a value player. Bernstein & Co. got heavily into bank stocks like Chase Manhattan and NationsBank beginning in 1989 and looked stupid when bank shares collapsed in 1990. Impatient investors pulled their accounts—close to the bottom. Chase and NationsBank have trebled since hitting their 1990 lows.



Lewis Sanders, chairman of Sanford C. Bernstein & Co.

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Practically/Amazing

Skeptics are betting serious money that Tom Stemberg's Staples, Inc. will falter, but Stemberg keeps confounding them.

Penny-wise

By Norm Alster



Staples Chairman and Chief Executive Thomas Stemberg at his original store in Brighton, Mass.

Selling his stock, he says, had nothing to do with Staples' prospects.

Richard Howard

THOMAS STEMBERG got rich by getting forced out of his job. In the early 1980s Stemberg worked in a number of managerial jobs at First National Supermarkets, the big grocery chain. Stemberg says he left after learning First National was dickering to sell his division.

Like many unemployed executives before him, Stemberg became a consultant, operating out of a makeshift office in his home in West Hartford, Conn. Business wasn't exactly booming when Stemberg had an inspiration. "I was having trouble buying printer ribbons on Saturday," he recalls. "I was feeling ripped off on computer products." Other small business people must have had the same problems. A business was born.

Stemberg's Staples, Inc. became the first of the office supply discount retail chains that stock everything from pens and paper clips to photocopying paper and computer supplies and are open seven days a week. The concept was an overnight sensation. From its first store, opened in Brighton, Mass. in 1986, Staples has grown to 174 stores. Most are in the Northeast corridor, particularly in New York, Boston and suburban Washington; 42 outlets are situated in southern California.

Absent any nasty surprises, Staples is likely to earn about \$17 million (78 cents a share) on revenues of almost \$900 million in the 1992 fiscal year. Its Nasdaq-listed stock is valued at over \$800 million, about 35 times anticipated 1993 earnings. Stemberg, 44, owns stock and options worth \$20 million.

Can Stemberg keep it up? A lot of people are betting a lot of money he can't. Over 2.1 million Staples shares have been sold short; that's 9.5% of the stock outstanding and over five times average daily trading volume.

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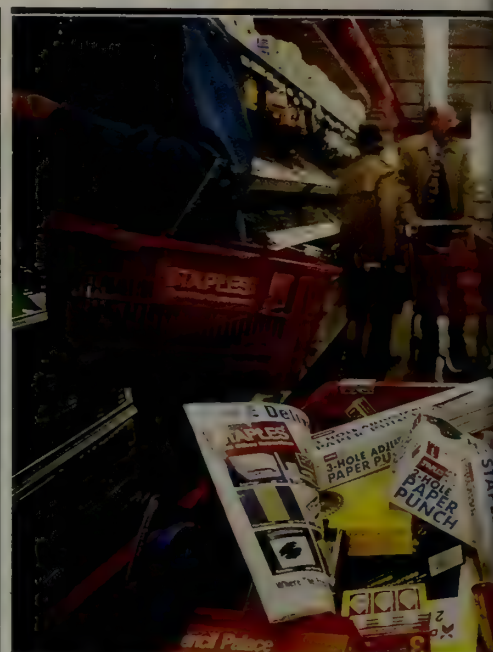
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The shorts see Staples' weakness in its high P/E and the ease of entry into the business it pioneered. Stemberg's success created tough competitors. Boca Raton, Fla.-based Office Depot, Inc., with 291 stores, and Cleveland-based OfficeMax, Inc., with 179, are coming on strong. Well-heeled Kmart owns 92% of OfficeMax, and is now opening stores on Staples' turf in Boston and on New York's Long Island. Michael Feuer, chief executive of OfficeMax, says his strategy is to choose store sites that intercept shoppers on their way to Staples.

It gets worse: Warehouse clubs like Wal-Mart's Sam's Clubs are increasingly stocking office supplies for small businesses. Dean Witter analyst Patrick McCormack predicts that by the end of this year nearly every Staples store will face direct competition.

Stemberg concedes that competition has forced him to cut prices dramatically in the last year to compete with nine new OfficeMax outlets in Boston. Since Staples' aftertax profits during the last two years have amounted to just 0.6% of sales (the figure includes charges related to the acquisition of Florida's Workplace chain), the shorts don't think the company has much margin for error.

Maybe so, but cutting prices, Stemberg says, actually helped business—Staples' same-store sales in Boston increased by 23% after prices were cut. The price cuts apparently broadened the market by making buying from Staples attractive to customers with

One of Staples' four Manhattan stores
Expanding his beachheads in densely populated areas, Stenberg says he'll eventually have 30 stores in the Big Apple.

between 25 and 100 employees, who previously bought directly from mail-order and retail stationers.

These larger customers could prove to be a rich vein for Staples and its competitors. Thomas Kully, a William Blair & Co. analyst, estimates that chains like Staples currently have 12.5% of office product sales to businesses of under 20 employees, but under 4% to businesses of 20 to 99 employees. The analyst thinks the discount stores could double their share of the 20-to-99-employee market.

Of course, much will depend on Stenberg's ability to keep a tight rein on costs and on purchasing. His 12 years in the grocery business, where even 1% is a healthy net margin, taught him the value of squeezing pennies. When Staples learned one of its American suppliers was sourcing sticker notes in Taiwan, it cut out the U.S. middleman and started buying directly from the factory. Savings? Five cents per pad. Pointing to his slightly damaged desk, picked up at a liquidation sale, Stenberg says: "We watch every penny we spend."

In December the short-sellers thought they'd gotten a break when Stenberg sold 117,500 Staples shares at \$38 a share. Aha, the founder was bailing out. Not so, Stenberg retorts: "It was an indication of what I think is going to happen to income tax rates." Stenberg sold just 11% of his holdings. "I'm holding on to the other 89%," he promises, "because I believe it's an excellent bet."



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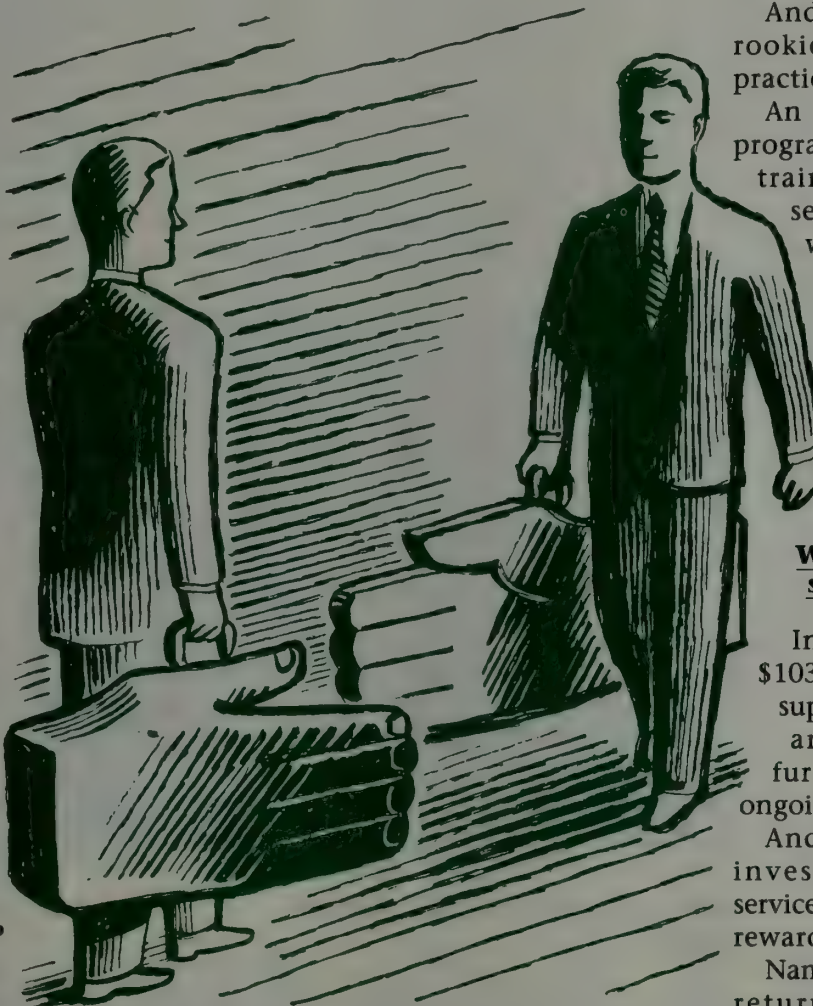
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Prudential Securities 

Just ten months old and still tiny, the Arizona Stock Exchange has New York's Big Board worried.

A gnat grows in Phoenix

By William P. Barrett

SITTING in a smallish room in a Phoenix office building, three men stare at computer screens, and occasionally the silence is broken by the ringing of a telephone. Welcome to the bucolic ten-month-old Arizona Stock Exchange. Started in 1989 by former Kidder, Peabody & Co. futures trader R. Steven Wunsch, the privately owned Arizona Stock Exchange is the closest thing yet to a fully computerized auction market for securities. It was financed with funds raised by Wunsch, including a \$700,000 loan from the state of Arizona.

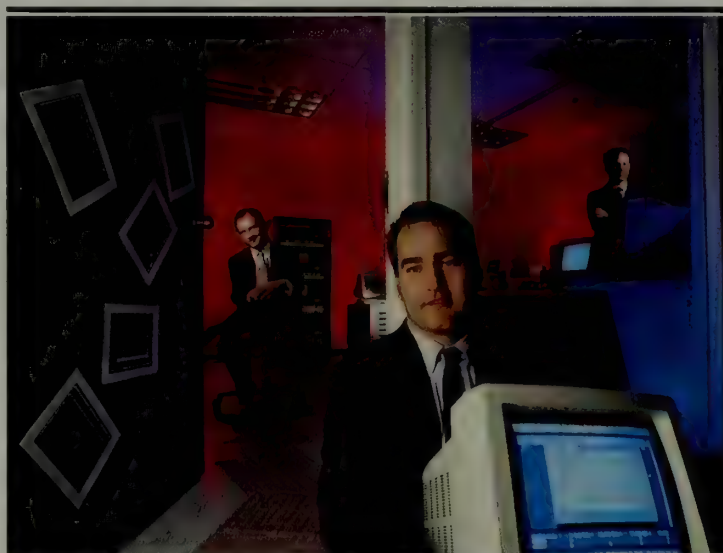
In Phoenix, there are no specialists or marketmakers standing between an investor who wants to sell a stock and another who wants to buy. The only intermediary is a powerful Sun Microsystems mainframe the size of a two-drawer filing cabinet.

The exchange opens for business at 4 p.m. Eastern time, as the New York Stock Exchange closes. Institutional investors—individual investors are not allowed—log onto the Arizona exchange's computer and list the shares they would like to buy or sell. The investor can specify any limit price but generally uses the New York close, plus or minus $\frac{1}{8}$.

Traders watching their computer screens around the country can see the orders as they flow into the Arizona exchange and can then raise or lower their terms, or withdraw their orders altogether. Traders' identities are hidden, of course, but they can

also camouflage big block orders.

Exactly one hour after it opens, the Arizona exchange closes, 5 p.m. New York time. At that time, the computer matches as many buy and sell orders as possible. Wunsch calls this a "single price call market," meaning that all the action in Phoenix takes place at



The Arizona Stock Exchange's entire home-office staff
Transaction costs: just 1 cent per share.

one time, at one price. He says about 90 institutional investors from the U.S. and Canada now regularly use his little exchange.

Why bother to trade in Arizona? Price. Just 11 employees run the whole thing, including 3 who watch the computer out of low-rent (\$13 per square foot) Phoenix offices. As a result, institutions can buy or sell a stock for an average of just 1 cent a share. That compares with maybe 6 cents and up per share on the New York Stock Exchange, and probably more on the American Stock Ex-

change and Nasdaq's National Market System. About 35% of the Arizona exchange's penny-a-share fee goes to a subsidiary of Bankers Trust, which clears the transactions.

To get that commission saving, however, the investor pays a price: On the New York Stock Exchange, specialists are obliged to buy or sell throughout the day. Information flows in, stocks trade and prices are established continuously throughout the trading day. It usually takes no more than a phone call and a few seconds to execute multimillion-dollar orders. Arizona is much slower and uncertain. On the Arizona exchange an investor can never be certain that his or her trade will be consummated in that split second when the computer closes the auction. Trades take place only if the computer can match specific orders.

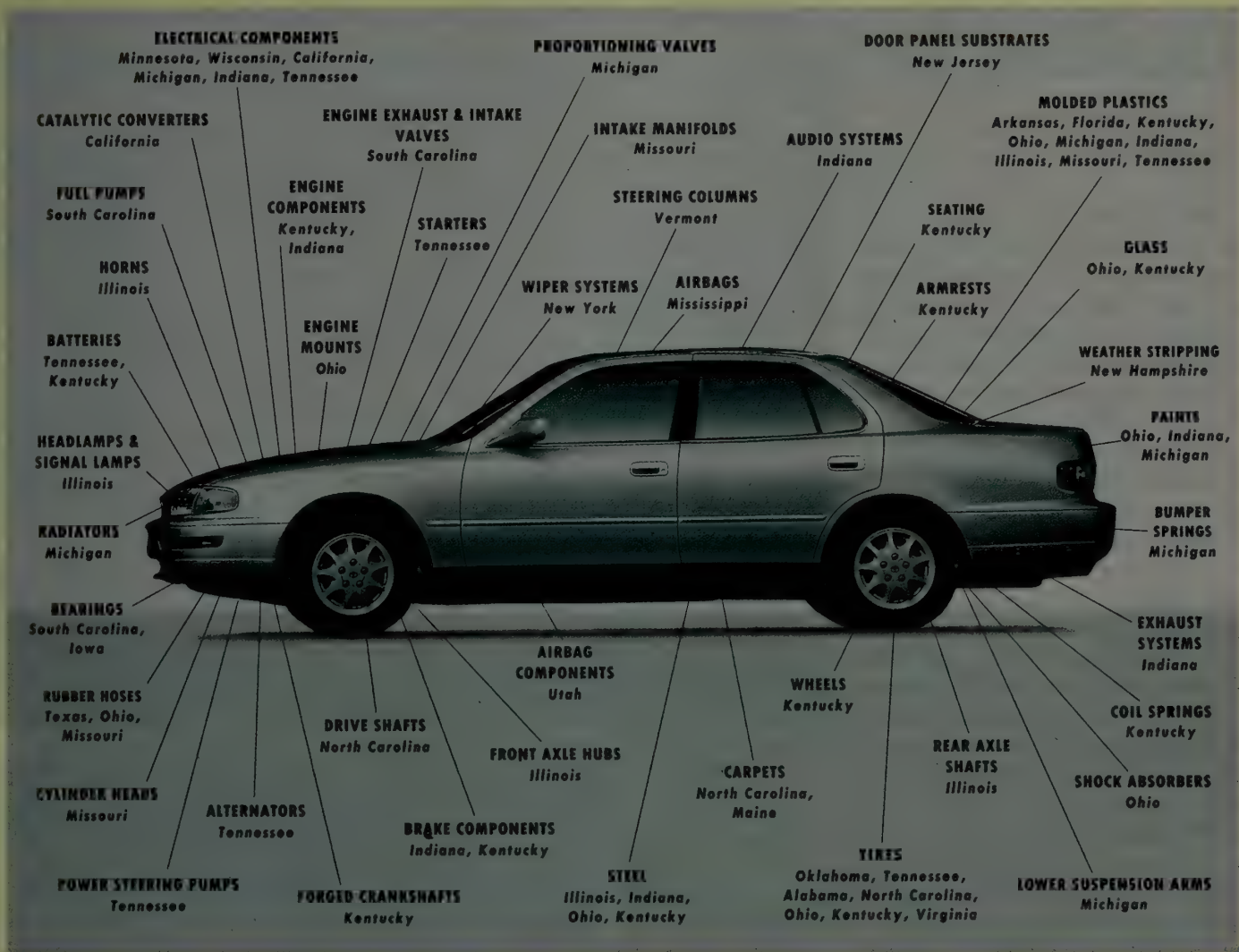
There's the rub. Rarely do the orders match up very well. On a typical day, orders for more than 12 million shares are entered on the Arizona, but only 500,000 actually change hands. New York usually trades in a minute what Arizona does all day.

Nevertheless, the elephant is somewhat afraid of this gnat. The New York exchange bitterly but unsuccessfully opposed Wunsch when he applied in 1990 to the Securities & Exchange Commission to operate as a limited-volume exchange with exemption from full registration. The Big Board felt—and still feels—that the Arizona exchange is getting a free ride

from regulators while undercutting other markets.

Wunsch concedes that his operation, which he owns through AZX, Inc., loses money but says it will be in the black at 1 million shares a day—a level he hopes to reach this year. If and when the Arizona exchange's average daily trading volume hits that of the country's smallest fully licensed exchange, the Cincinnati Stock Exchange (currently 2.5 million), the SEC will take another look at Wunsch's exemption status. It promises to be quite a fight.

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It isn't easy to compete against the Asians in consumer electronics, but it can be done. R.L. Drake, a small, privately owned midwestern outfit, shows the way.

Make a better mousetrap

By Seth Lubove

MANY PEOPLE nurse hangovers on New Year's Day, but Ronald Wysong's wasn't from too much champagne in 1986. His Miamisburg, Ohio company was just about to lose its principal market. His R.L. Drake Co. had done a thriving business making home satellite TV receivers, many of which were purchased by people who wanted to get cable transmissions off satellites for free.

In January 1986 Home Box Office, the cable movie channel, started scrambling its satellite signal. R.L. Drake's boxes were no longer a free ticket to HBO's programming. Other cable channels quickly followed HBO. "What HBO birthed in 1975 [as the first premium cable service transmitted by satellite] they terminated in 1986," Wysong says. "[It] was like hitting a brick wall." Sales fell 60%, employment dropped two-thirds and Drake finished the year in the red.

But Drake survived. It had suffered similar setbacks before. Drake was founded 50 years ago when the late Robert L. Drake Sr., an electrical engineer who had once worked for Bill Lear, of Learjet fame, began building amateur, or ham, radio components that broadcast as well as received signals. The company later branched into shortwave and marine radios. But by the 1970s, with ham radio use stagnating and Japanese competitors such as Kenwood, Icom and Yaesu muscling in on the market, Drake needed another business.

One of Drake's distributors suggested the fledgling satellite receiver market. Until Drake came along in 1981, satellite receivers were mostly jerry-built affairs, assembled in ga-

rages and sold through classified ads. For Drake, it was an easy transition. Satellite receivers were a lot less sophisticated than the complex radios it was used to manufacturing. By 1985 Drake was running three shifts a day to keep up with demand. Sales, around \$7 million in 1981, zoomed to \$65 million in 1985.

Then the music stopped. Drake might have gone under had it not even in its most prosperous days pinched pennies—very much in the spirit of its founder, a tinkerer known to fix the starters in fluorescent lights himself rather than buy new ones.

Fortunately, Peter Drake, the founder's son and chief executive until Wysong took over, had spent a lot of time cultivating foreign business. Drake is an old and respected name among radio enthusiasts all over the world, many of whom still use Drake components. Taking advantage of its established name and reputation for excellence, Drake designed an export model of its satellite receiver and began selling overseas. Today Drake survives as the only U.S. maker of the receivers (it even assembles Zenith's receivers under a contract arrangement). Drake also branched into commercial receivers for small cable systems, which now account for 20% of satellite receiver sales.

Who's buying? Among the more than 30 countries Drake is in, the biggest sales are to Africa and the Middle East, where a sheikh isn't worth his weight in petrodollars unless he's got a couple of dishes in the backyard. Exports have climbed to 40% of Drake's sales.

There's good news on the home

R.L. Drake's chief executive, Ronald Wysong

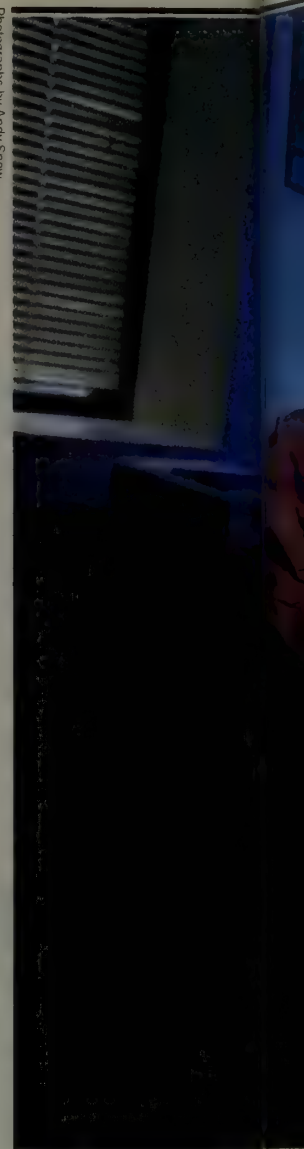
Build a good product, price it right, and the sales will follow.

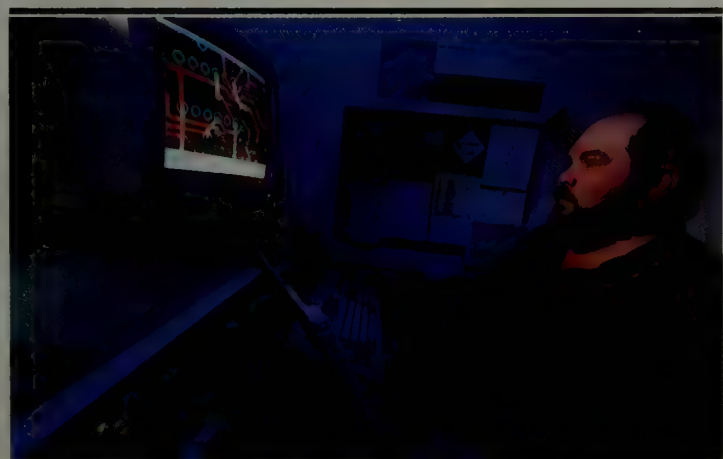
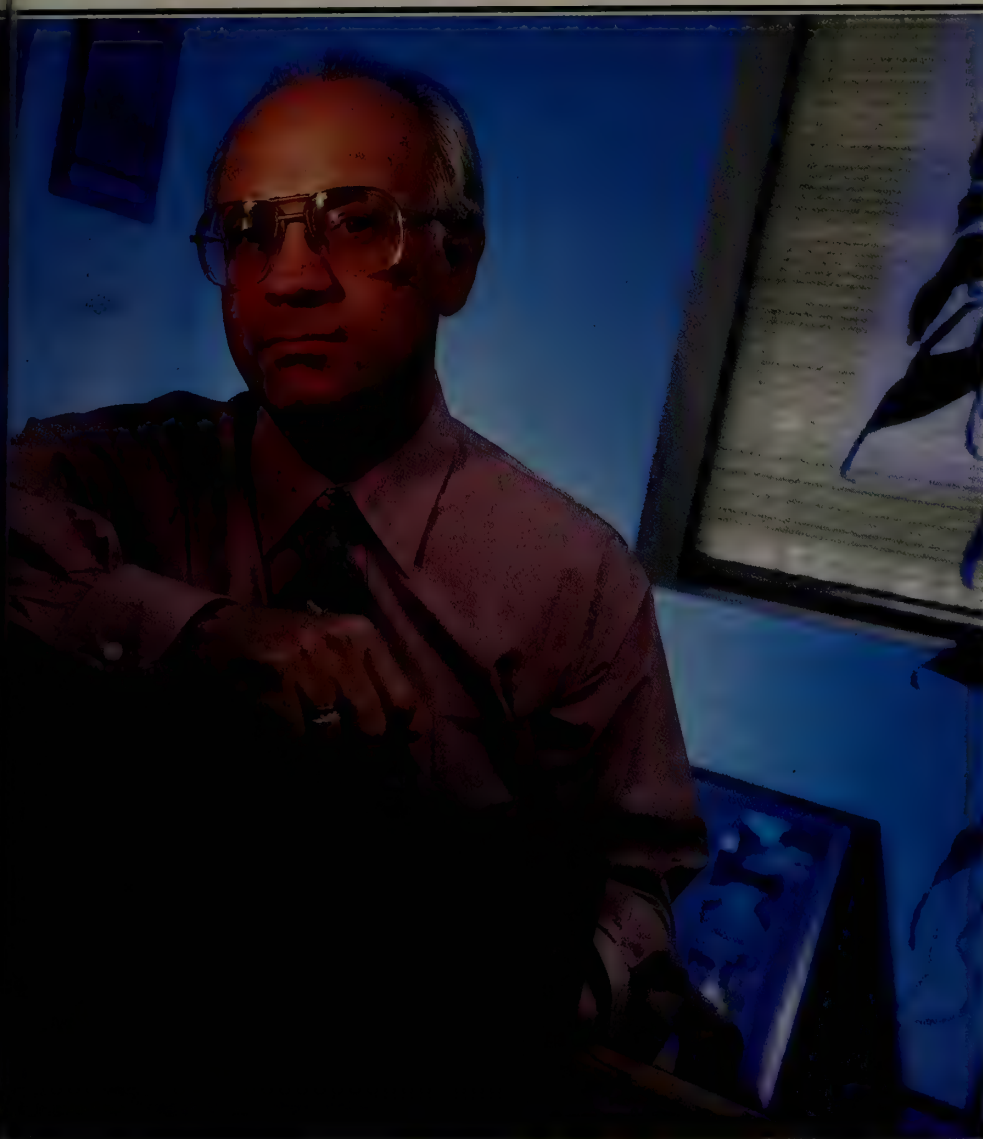
front as well: U.S. sales of satellite receivers rose slightly last year, to 358,000 units as of Dec. 1, thanks partly to the introduction of new scrambling systems, requiring receivers with new descramblers. Although Drake must license the descrambling technology from General Instrument, Wysong says the privately held firm is again profitable, with about 8% of the \$400 million U.S. market.

For all this, Drake has not by any means recovered from its 1986 hangover. Sales are just \$40 million and employment is 325—still less than half the old record. But the revenue curve is rising again.

Once more searching for a new business in order to grow, Wysong took Drake back to its heritage in shortwave radios with the introduction of the Drake R8 in 1991. Drake's timing was good—interest in shortwave surged during the Gulf war. With the Japanese swarming over the

Photographs by Andy Snow





Drake engineer designing circuits
Keeping costs low with vertical integration. Everything from circuit boards to metal chassis are made in-house.

low-end portables, Drake found its niche in the high-end tabletop models. But the Drake R8 is very aggressively priced at less than \$1,000, compared with as much as \$6,000 for a top-of-the-line Icom or Japan Radio Co. radio. "We felt the Japanese shortwaves were high-priced, high-margin, and some of the equipment wasn't very good," Wysong says.

Drake focused its attention on the radio's capabilities rather than on design or margins, and it engineered a winner. Robert Hatter, retail manager of Electronic Equipment Bank in Vienna, Va., finds the radio's clunky look doesn't hurt. He says: "The thing looks like it was made in someone's garage. But if you close your eyes, you'll find it's a top-notch per-

former that's giving the Japanese a run for their money." Hatter isn't alone. "Right now, we feel Drake is the best at any price," enthuses Lawrence Magne, editor and publisher of *Passport to World Band Radio*, the bible among shortwavers.

The shortwave spectrum these days is more cluttered than ever. Tune in the BBC, for example, and you'll likely hear other transmissions creeping through from adjacent stations. Most good shortwaves come with a filter that narrows the bandwidth, to focus on the station you're tuned to. If you want more filters for better focus, you have to add them at a cost of about \$100 each. The Drake R8, however, comes with five bandwidth filters already installed, each filter pinpointing the signal more precisely than the last. It is able to do so because Drake redesigned an obsolete type of filter to give better performance at a dramatically reduced cost, says Magne.

With so many advantages, the Made in the U.S.A. label is icing on the cake. Says Fred Osterman, president of Universal Radio Inc., a Drake dealer: "Within a few months of coming out, this receiver quickly assumed the dominant position. It is our most popular tabletop receiver by far. There isn't even a close second now."

Some of Drake's cost edge comes from the weak dollar. Another advantage is its high degree of vertical integration. Almost everything is self-contained in the company's 90,000-square-foot plant, where Drake makes everything from its circuit boards to the metal chassis. Alas, EPA rules are forcing it to evaluate whether it will be cheaper in the future to buy circuit boards rather than install costly pollution-control equipment.

Wysong doesn't try to compete in styling, but he realizes that after-sales service is an important part of a product's reputation. He has also set up a toll-free number so customers can buy the R8 direct from the factory; one-third of sales come by phone.

So Drake survives by using the time-tested but too often forgotten better-mousetrap approach: Come up with a product that works better, price it right, and the sales will follow. If there's a sure-fire way to compete with the Japanese and other foreign competitors, this clearly is it.

One Clinton campaign promise still alive is resurrecting the investment tax credit. But doing so will make the President lots of enemies.

What do you mean, no pool tables?

By Todd G. Buchholz

FACED WITH BUDGET REALITIES, the Clinton Administration is backing away from many campaign promises, but one it probably won't abandon is the proposal for reviving some form of investment tax credit as a means of stimulating the economy while helping U.S. industry stay up-to-date. If enacted, Clinton's would be the fifth ITC since 1962. Already a vicious battle has been joined by veteran lobbyists who want to mold the latest ITC to their liking. Bill Clinton, who likes to be liked, will make some enemies when he makes his choices.

An investment tax credit is a kind of direct tax subsidy. For every qualifying dollar spent on specified kinds of plant and equipment, a business can deduct a certain amount from its income tax bill.

The first investment tax credit question for Clinton is: Should his ITC apply for just a year to give the economy a swift kick, or should it be permanent? A temporary ITC costs the Treasury less—spending \$40 billion in 1993 is cheaper than promising at least \$40 billion each year for the rest of the decade. But a temporary credit induces firms to buy more this year and cut back investment the next year. Theodore Eck, chief economist of Amoco Corp., says a one-year ITC would be counterproductive for oil equipment makers. "In our business," he explains, "most of the work is custom-engineered and can't be built in a year."

Since 1989 Todd G. Buchholz has been an economic policy adviser in the Bush White House. A lawyer and economist, he is the author of *New Ideas from Dead Economists* (Penguin Books USA).

The next question for Clinton: Do we want an "incremental" ITC or a "first-dollar" ITC? An incremental ITC rewards firms only for raising their investment levels above a base amount, equal to some recent average. A first-dollar ITC pays, say, 10% of total investment spending.

Clinton advisers Lawrence Summers, chief economist at the World Bank, and Robert Shapiro, of the Progressive Policy Institute, have backed the incremental approach. Assuming an 80% threshold, for example, if Jack's Juicer Co. bought \$1 million of equipment in both 1991 and 1992, Jack would get credit in 1993 only for investments over \$800,000. So if Jack buys \$1.1 million of equipment and if the credit is worth 10%, the Treasury would pay \$30,000 toward this investment.

If the goal is to stimulate the economy, an incremental credit is probably more efficient than a "first-dollar" credit, which mostly rewards firms for equipment they would have bought anyway. But implementing an incremental credit can be hazardous to political health. Companies and industries that invested heavily last year will fight it tooth and nail. "Why should we be penalized now for having expanded in recent years?" demands Kenneth Lay, chairman of Enron Corp., the Houston-based natural gas company. The National Association of Manufacturers, the American Council for Capital Formation, and the Manufacturers Alliance for Productivity & Innovation are all opposing the incremental approach.

The incremental approach would, however, provide a bonanza for deft tax lawyers. If Jack's Juicer Co. cannot

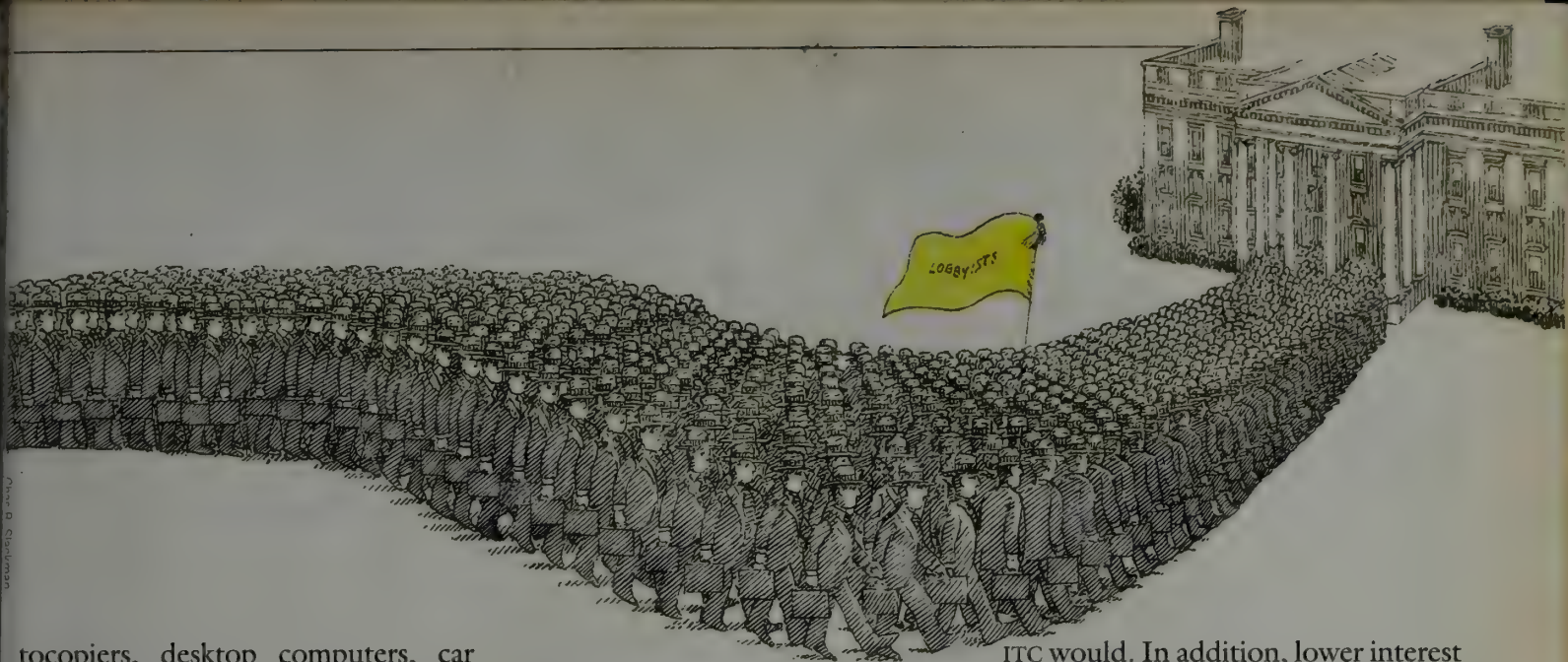
qualify for the credit, a new spinoff of Jack's could. If a firm just purchased a machine in 1992 that does not qualify, it could sell it and use the proceeds to buy a new one that does qualify in 1993. And how to set the base amount for a firm that merges with another? Or for startups? How about leased equipment?

But now comes the really hard part: how to define "eligible equipment." The narrower the definition, the more Treasury dollars are available for the equipment that does qualify—but the smaller the number of firms that will benefit from the subsidy.

For example, trucks and buses make up almost 9% of private durable equipment purchases. Furniture and fixtures make up another 5%. Office and store information processing machinery add up to 17%. If Congress excludes all of these items, the cost of the ITC falls sharply—but the companies that make the excluded goods will squawk.

Last year Representative Sander Levin (D-Mich.) and former Representative Frank Guarini (D-N.J.) proposed an ITC that would apply only to equipment "integral to the manufacture of productive equipment." But neither of the two pols tackled the central issue, explicitly defining "productive."

Veteran tax lobbyist Charls Walker, former Deputy Treasury Secretary and the prime spokesman for a targeted ITC, has compiled a long list of products that he feels should and shouldn't qualify for the ITC. Among those that shouldn't qualify, says Walker, are buildings and structures, furniture, word processors, barber chairs, billboards, dental drills, pho-



ocopiers, desktop computers, car washes, carousels, pool and billiard tables, bowling balls, ski lifts, tennis nets, and a whole lot of other items.

A lot of builders, desktop computer makers and ski lift people, not to mention dentists and furniture makers, would certainly put their lobbyists to work on that one.

Desktop computers and word processors are perhaps the toughest choice. Information and computing devices make up over 42% of all business nonresidential equipment, up from only 5% in the late 1950s.

If they want to survive, most companies will keep buying information processing equipment with or without a credit. And excluding this class of equipment will save the Treasury billions. But who wants to wrestle with an industry that represents over 5% of GNP and employs over a million Americans? Neither the new President, who has lots of markers outstanding in Silicon Valley, nor the new Congress wants to be portrayed as old-fashioned smokestack America types who don't understand the high-tech revolution. So assume that investments in computer equipment will qualify for the credit.

The targeted credit, like the incremental credit, provides opportunities for crafty lawyers and accountants. Example: During past incarnations of the ITC, when building structures did not qualify, firms installed removable office walls and partitions, which were eligible for the credit.

Was a reconfigured building somehow better for the economy than a new building? It was if you were in the partition business.

Here's a frightening question: Will

Congress insist that only equipment manufactured in the U.S. be eligible for the ITC? Before you reject this possibility out of hand, remember that 12 years of pent-up protectionist pressures on Capitol Hill are ready to burst, and that some previous investment tax credits have applied only to American-made goods.

Regardless of how they ultimately design the ITC, Clinton and the Congress ought to make their decisions quickly. Otherwise, business will wait to place orders until it is clear how best to take advantage of the plan. Equipment sales dropped by 25% in October, partly for this reason. Says Mark Holcomb, a spokesman in IBM's Washington office: "Indecision could very well freeze the marketplace."

Given these political complications, an ITC may not be the best way to accomplish helping keep U.S. industry modern. It would be better if Clinton told his advisers to drop the ITC proposal and put more thought into leveling the playing field that now gives current consumption a big advantage over investment.

One field leveler would be to end the double taxation of dividends, wherein both the corporation and the shareholders pay taxes on the same earnings. Another would be to index the capital gains tax for inflation.

Still another would be to suppress government spending, which would push long-term interest rates down further. According to a recent study by the WEA Group, by 1996 a 100-basis-point decline in long-term rates would create 700,000 *more* jobs and \$20 billion *more* in economic growth than a first-dollar, nontargeted 10%

ITC would. In addition, lower interest rates would slice the budget deficit by \$60 billion, while a fairly broad ITC would bloat the deficit by \$55 billion.

We can learn a lot by looking at Japan. Economist Summers, along with J. Bradford De Long of Harvard, took a close look at equipment investment from 1960 to 1985 in 60 countries. Their 1991 article in the *Quarterly Journal of Economics* concludes that Japan's aggressive equipment investment "account[ed] for essentially all of the extraordinary growth performance of Japan."

Japan's investment did not, however, rest on an ITC. The Japanese enjoyed another advantage, a lower cost of capital. During the 1970s and 1980s both debt and equity were much cheaper for Japanese companies than for their U.S. competitors.

Note the past tense. Since 1988 Japan's cost-of-capital advantage has been wiped out. Real long-term interest rates in the U.S. have been halved, while Japan's rates are rising and its stock market has collapsed. So Japan no longer has that advantage, but with a general tax policy more favorable to investment, the U.S. could enjoy what Japan has largely lost.

Bottom line: After 30 years of experimenting with ITCs, we know only a few things. First, an ITC does not guarantee higher productivity. Second, it is messy to write and dreadful to enforce. Third, it enriches tax attorneys and lobbyists. Of course, if the new Administration and Congress lack the courage to restructure the tax code more fundamentally to promote investment over consumption, then another investment tax credit is probably better than nothing.

The Pension Benefit Guaranty Corp. has some real problems, but a \$51 billion liability isn't one of them.

Fix what needs fixing

By Laura Jereski

HOW BROKE is the Pension Benefit Guaranty Corp.? To hear some people talk you'd think it's about to turn into the next S&L crisis.

That would be a national disaster, because the agency insures the pensions of 40 million Americans in about 85,000 company plans. The failures of Pan Am and Eastern Air Lines alone saddled it with \$1.6 billion in unfunded pension liabilities. Alarmed, the agency has been scrambling to quantify its total liabilities. Its current guesstimate is \$51 billion, up from \$40 billion or so last year. Against this the agency has an annual intake of \$800 million from compulsory premiums paid by companies with defined benefit plans.

But the numbers aren't as bad as they sound. Consider the settlement Pension Benefit Guaranty Corp. recently crafted with Trans World Airlines. During months of jawboning, the agency insisted it was on the hook for roughly \$1 billion if it had to buy annuities to cover the plan's obligations to pensioners. To put it mildly, the agency was exaggerating. Its liability would reach that figure only if the agency couldn't recover a dime from TWA or TWA's assets.

The settlement made late last year with former TWA owner Carl Icahn in fact contradicted the \$1 billion figure. Icahn agreed to a cash settlement whose maximum present value is about \$400 million. By that agreement, the agency was forced to concede that its shortfall was closer to \$400 million than \$1 billion.

The agency's figure was overstated in yet another way. It assumed that the liability would be settled by the purchase of annuities yielding a bit



over 6%. In fact, the assets already in the plan could be expected to yield considerably more than that.

Indeed, every percentage point difference in interest rates changes the present value of the agency's liabilities up to 20%, according to a December 1992 report by the General Accounting Office. If the agency brought its interest rate and settlement assumptions in line with what companies commonly use, its much broadcast \$51 billion underfunding would shrink by tens of billions of dollars.

The agency insists its interest rate assumptions compensate for outdated mortality tables it is required by law to use, that people live longer than the tables show. The government auditor disagrees.

There are other flaws in the agency's estimates. Every year the agency totals the underfunding in plans it insures, manipulates the interest rate,

then sums the deficiencies in the plans. The calculations slight the guarantee limit of \$29,000 per year per pensioner, which is far lower than the rich promises in some plans. Even more ludicrous, the agency lumps together all underfunded pension plans even though many of them, RJR Nabisco, for example, are unlikely ever to default. When Chrysler sells its 40 million new shares, it will likely use most of the money to up its underfunded pension plan.

In all the talk of disaster, of course, the agency makes no attempt to calculate the premium increases it could tap, with congressional approval. Raise premiums slightly and assume more realistic interest rates, and most of the billions in deficit disappear.

Not that there aren't real problems facing the pension guarantee agency. To begin with, its premiums (originally set at \$1 per employee in 1974, now \$19) bear little relation to its risk. So many healthy companies converted to plans not covered by the agency that its premium base is down to 85,000 companies, from 120,000 when it was founded.

What's more, for political reasons, the pension agency converted most of the assets it holds in trust from stocks to bonds, probably forfeiting long-term protection against inflation.

The agency wants legislative changes. For example, it wants to curb the tendency of sick companies to up pension benefits in lieu of pay. It also wants a better place in the creditors' queue when a company does go under. By and large, the proposals are good. But raising the specter of another S&L crisis isn't a credible way to get them.

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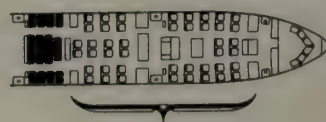
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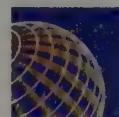
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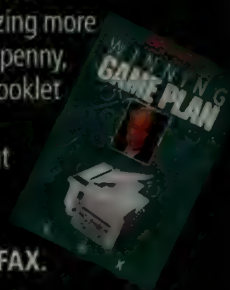
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The media are concerned about a threat to education from the so-called religious right. There was no such outcry when the left began its pervasive brainwashing.

Indoctrinating the children

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

ANY BOY who grew up in a rough neighborhood has probably had the experience of having another boy punch him in class, with the teacher turning around just as he hit him back.

It did no good to say, "He hit me first!" because the automatic answer was: "Two wrongs don't make a right."

It is much the same story in the media today, as editorials warn that "the religious right" is "taking over" school boards. Alarms are being raised that conservative or religious indoctrination will be imposed in the public schools.

Where have the media been all these years, while the most blatant, deliberate and pervasive indoctrination by the political left has been taking place in public schools all across the country?

Hypothetical dangers from conservative or religious groups attempting to fight back do not begin to compare with the dangers from the enormous apparatus already in place, and continuing to conduct classroom brainwashing, to the detriment of academic education.

The techniques of brainwashing developed in totalitarian countries are

routinely used in psychological-conditioning programs imposed on American school children. These include emotional shock and desensitization, psychological isolation from sources of support, stripping away defenses, manipulative cross-examination of the individual's underlying moral values, and inducing acceptance of alternative values by psychological rather than rational means.

These techniques are not confined to separate courses or programs, but also intrude into academic subjects like history or social studies, as well as being pervasive in programs ostensibly dealing with special social issues, such as sex education, death education, drug prevention, nuclear education, or multiculturalism.

Shock and desensitization procedures range from taking children to morgues and funeral homes to see and touch dead bodies to pairing boys and girls to have conversations with each other about sex, showing ghastly movies of war, or raw movies showing sexual activity or close-ups of childbirth.

Verbal examples include classroom discussions of lifeboat dilemmas, where the limited capacity of the boat forces decisions as to who should be left to drown. Sometimes children are asked to decide whom they would sacrifice among members of their own family.

These are not the isolated idiosyncracies of particular teachers. They are products of numerous books and other "educational" material in programs packaged by organizations that sell such curricula to administrators and teach the techniques to teachers. Some packages even include instructions on how to deal with parents or others who object.

Psychological isolation can be

achieved in a number of ways, and stripping away psychological defenses can be done through assignments to keep diaries to be discussed in the group and through role-playing assignments, both techniques used in the original brainwashing programs in China under Mao.

Mobilizing school children for the political crusades of the left has also been going on for years. At one time, the largest number of letters received by the President of the United States on any subject came from school children writing to him about nuclear issues, as part of their classroom assignments.

All this is barely the proverbial tip of the iceberg. There is, for example, the whole Alice-in-Wonderland world of multiculturalism, where the very photographs and drawings in textbooks must propagandize the multicultural message. There are math textbooks where the pictures of famous mathematicians and scientists would suggest that virtually no white male had ever had anything to do with either of these fields.

The pettiness of the education establishment's detailed instructions and taboos for pictures in textbooks might seem funny to an observer, but they are deadly serious matters of financial life and death to the publishers.

Many parents who have been appalled to discover what has been going on in the schools have fought lonely and frustrating battles against the education establishment. Eventually some have begun to organize, which at least deprives the school bureaucrats of their favorite line: "You're the only one who has complained."

That line will be used, even when controversies and lawsuits are raging all across the country over a particular brainwashing program. Parents are also likely to be told that all the educational experts support the program. What they are unlikely to be told is that these "experts" are often the ideological gurus who pushed these programs in the first place, or consultants who profit from them.

When the futility of individual protest leads to organized activity, that is when the cry of "censorship" goes up from the education establishment and the media rush to the rescue, invoking the specter of "the religious right." What has caught their attention is someone trying to fight back. ■

As communications and computers merge into a single business, the biggest telephone company is better positioned to profit than the biggest computer company. Why?

The tortoise and the hare

By Gary Slutsker

THE PHONE RINGS in the customer service center at Bausch & Lomb's contact lens division. An ophthalmologist's nurse wants to place an order, but she gets a recording that all agents are busy, and hangs up immediately. As she's thumbing through her Rolodex for the number of another lens supplier, her phone rings: It's Bausch & Lomb. We're sorry for the delay. What can we do for you?

You're on the road, in too much of a hurry to stop to make a phone call, but you need to get a message to your boss. You pull your personal communicator out of your vest pocket, scribble a message in longhand, push a button and the message travels over a radio network to your boss' electronic mailbox.

You sit at your desk and have a face-to-face videoconference with someone halfway around the world for \$10 an hour. A few years ago you would probably have taken an airplane trip for that face-to-face meeting.

In each of these cases, powerful chips and clever software have made possible a merging of communicating and computing. For years the futurists have told us these businesses were going to come together. Now that the merging is under way, American Telephone & Telegraph Co. is uniquely positioned to profit from it. Neither competing long distance companies like MCI, nor computer vendors like IBM, nor software vendors have anything like AT&T's combination of fiber, semiconductors and software—a dynamite combination of skills and assets that is making AT&T, not IBM, the master of telecomputing.

What with writeoffs reflecting the wrenching technological changes in its industry, AT&T's earnings have been erratic since the breakup of the Bell system in 1984. The company lost money in 1988 and was barely profitable in 1991. But it is now hitting its stride. It should earn \$4.3 billion this year, predicts Value Line, more than MCI, Microsoft and IBM combined.

Wait a minute. Doesn't AT&T still get 80% to 90% of its profits from the long distance business, where it maintains a 67% share of this \$60 billion market? It does, but look deeper: AT&T's empire is today much more than the familiar wires and switches. Increasingly, AT&T is repackaging its network services for different customers with



Frank Veronsky

Sprint Corp

ABOVE:
AT&T's
Robert Allen
LEFT:
Sprint microwave
tower biting
the dust

**AT&T kept its old
towers; someday
they may power a
new kind
of cellular
telephone
system.**

features defined by software. For example: "private" business lines that aren't separate lines at all, merely programming abstractions that reserve network capacity for certain users; the smart (800) service that enabled Bausch & Lomb to retrieve a lost order from the ether; (700) numbers that follow you as you move or travel.

With so much calling capacity buried in the ground in fiber optics, communicating has become cheap, so cheap that distance means virtually nothing any more in determining the cost of a telephone call. You can route a call from Los Angeles to New York today as cheaply as a call from Los Angeles to San Diego. But if distance is not the issue, complexity is. Today's information consumer is connected to many networks around the world: electronic mail networks, wireless voice and data networks, teller machine networks, cable television networks, networks of digital libraries. "Today more than ever there's a need to



integrate these networks," says Arno Penzias, vice president of research at AT&T's Bell Laboratories.

Integrating them—connecting an ever larger pool of people, machines and databases to one another—is what AT&T is dedicated to. In the future the network will run from person to person rather than from station to station. That's what the (700) service is all about. And it must run, seamlessly, from people to data—data at the end of the hallway, in a branch office, in an archive in another city.

That's why, says Penzias, "our vertical integration is a far greater asset than it's ever been in the past." In plain English, he's saying that AT&T's ability to merge all the elements—the fiber, the chips and the software to run them—is what makes the network valuable.

Software is a decisive factor. At AT&T's research arm, Bell Labs, 60% of the 18,000 professionals are software people. Last month AT&T hired one of the world's top software strategists, David Stone, from Digital Equipment. Even something as humble as a home answering machine from AT&T comes with a 31-page software manual.

Software's power cuts both ways, of course. AT&T's biggest outage ever, in January 1990, was due to a program bug. Still, AT&T can boast of a high level of reliability. On its busiest calling day ever, last June 1, when the airfare wars began, AT&T switched 177 million calls and only 2,078 didn't go through on the first try.

To make maximum use of its communications network, AT&T is trying to be a player in every conceivable type of communications terminal. A sampling: a "neighborhood" phone that extends the range of a cordless phone fourfold, to a mile; a converter box for the top of the television set, to access and decompress up to a possible 540 cable channels (through a joint venture with Tele-

Communications and General Instrument); a combination home computer/videogame/TV for interactive multimedia (through a deal with 3DO, Time Warner and Matsushita); and a portable computer that communicates without wires (through an equity investment in Silicon Valley startup EO).

AT&T didn't get in this catbird's seat by chance. When Chairman James Olson died suddenly in 1988 and Bell System veteran Robert Allen took over the reins, AT&T seemed adrift. Long distance transmission, then 65% analog, looked old-fashioned alongside the all-fiber digital networks being promoted by Sprint and others. Faced with the reality that its core business, the long distance network, had to change to remain competitive, Allen wrote off \$7 billion worth of copper, resulting in a \$1.2 billion loss for 1988.

Allen reorganized the company into individual business units to get accountability, and brought in outside managers to provide a different perspective. Allen has no chief operating officer working under him. Rather, he has what you might call a synergy committee to help run the business. It consists of Robert Kavner, the AT&T group executive in charge of communications products, NCR chief Gilbert Williamson, long distance boss Victor Pelson, switch-and-fiber president William Marx, and chief financial officer Alex Mandl. When these five get together for four days a month, it is to come up with ways to capitalize on the convergence of telephony and computing. The rest of the time, they are back running their own almost independent businesses.

The results have been impressive. Take AT&T's Business Products outfit, the \$3 billion-plus (estimated 1992 sales) group that sells office phone systems, including private

Bausch & Lomb
customer service
operators

**Did you get a
busy signal?
They pluck your
number out of the
ether—and call
you back.**



switchboards (PBXs) and voice mail systems. After losing hundreds of millions of dollars over the last several years, the division turned profitable late in 1992. In January AT&T made a deal with personal computer network software king Novell to enable AT&T switchboards to connect to local area networks. "The only reason local area networks exist today is that the PBX business in the mid-1980s didn't understand data," says Kavner. "Now we understand it."

And, now that AT&T knows its way around data, its aim is to marry the intelligence in the office system with the intelligence of the telephone network. No longer will there be any sharp line dividing the business of linking computers across a hallway and the business of linking them across the country; these will be but two branches of the same network.

AT&T's internal chip division, called AT&T Microelectronics, manufactured solely for AT&T until 1987; now it sells to the outside world 40% of what it makes—everything from video compression/decompression chips and modem chip sets to a custom chip that helped shrink Hewlett-Packard's new Kittyhawk disk drive to the size of a credit card (*see story, page 92*).

AT&T's abortive entry into the mainstream computer business finally disappeared last year into the \$8 billion acquisition of NCR Corp. The NCR acquisition—sneered at by many experts—has put AT&T solidly into a global business of selling computers designed to be connected to networks, such as networks of bank teller machines and retail cash registers. AT&T, which is still largely U.S.-oriented, is learning a lot from NCR's successes abroad.

While AT&T was moving slowly but successfully from telephony into computers, IBM had a far more difficult time getting into telecomputing from the computing side. IBM bought and then dumped Rolm, the PBX maker.

Earlier, IBM sank more than \$1 billion building a satellite communications network at precisely the time when such networks were being rendered obsolete by optical fiber. IBM sold its Satellite Business Systems to MCI for stock, which IBM has since unloaded.

In a tasty bit of irony, IBM contributed radio licenses to a joint venture with Motorola called Ardis, which is a nationwide wireless data network, initially set up to send electronic messages to IBM service reps. Last year IBM and Motorola turned over to AT&T the management of the network that connects Ardis' radio towers.

Where does AT&T's recently announced deal to buy voting control of McCaw Cellular Communications fit in? This move has its cost. It has raised the hackles of the regional Bells, which are AT&T's biggest customers for switches and fiber. Asks John Clendenin, chairman of BellSouth: "How do I introduce a new feature or function in my cellular services that depend on AT&T switches when I'm competing against an AT&T [McCaw] cellular system in the same community?" But so important is vertical integration to the network of the future that this is a price worth paying. For years AT&T has been a big player in cellular, in every part of the business except carrying calls. Last year it became the largest seller of cellular switches and ancillary equipment in the U.S. Since 1991 AT&T retail phone stores have been selling cellular phones. Now AT&T is a cellular carrier as well.

Next on the wireless agenda: pushing the Federal Communications Commission to grant AT&T a pioneer preference to use the microwave licenses and towers it already owns for personal communications service, the next big play in wireless communication. This is just another variety of cellular service, using more and smaller transmitters and a different slice of the radio spectrum. But the FCC has yet to allocate such frequencies.

Beyond that, AT&T wants to sell the computers that will link into this network-over-the-air. At first these will be the computers for the business traveler, the package delivery truck, the repairman, the doctor, the police officer. Eventually, they will be for anyone who wants to stay in touch.

With that personal communicator market firmly in mind, AT&T's engineers have designed a low-power, low-heat microprocessor called Hobbit. The chip cranks through more than 13 million instructions per second, using less than a watt of power.

The engineers are off designing chips still more powerful, so that AT&T can weave video—a huge data hog—into various parts of its business. "It was clear as we worked

more closely together on our video competencies, we had applications across various lines of the business," says Allen. "Not VideoPhone per se, but videoconferencing using our network or bringing video down to desktops on NCR personal computers."

It's going to be a while before the VideoPhone 2500 and the Hobbit contribute anything significant to AT&T's bottom line. But in the immediate future AT&T is assured of a steady stream of profits.

First, AT&T's biggest single expense item—a \$14 billion fee paid to local telephone companies for access to their customers—is dropping. Federal regulation and competition force AT&T, in essence, to plow back the savings in access charges into lower rates. But that generates more traffic on the network, which means additional revenue that drops almost to the bottom line, says PaineWebber's Jack Grubman, a bull on the stock.

Second, long distance volume should pick up this year with a little help from the economy. In 1992 AT&T's traffic grew 6%; this year 8% to 10% growth is possible.

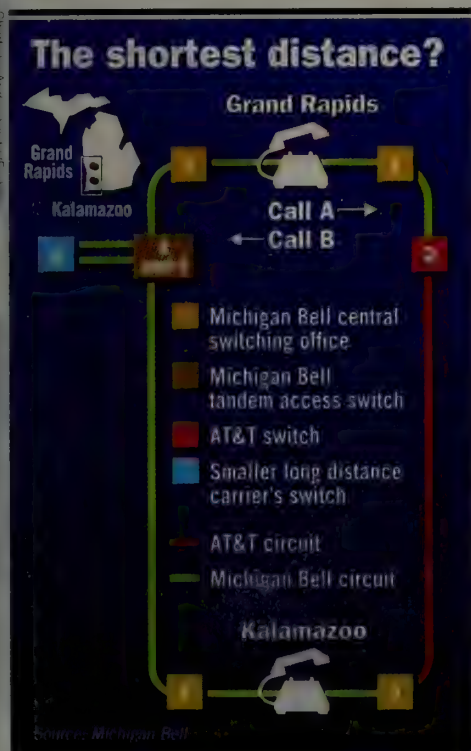
Finally, giant corporate customers, having spent the 1980s building their own communications networks by buying components like leased lines wholesale, are now realizing that they are better off handing over the management of these networks to carriers like AT&T, British Telecom and MCI. It's just another way of moving beyond selling fiber in the ground, which is a commodity these days, into selling business services.

AT&T's market share in the very profitable \$7 billion toll-free number business is 73%, according to Yankee Group, a Boston research firm. MCI and Sprint are hoping for a bonanza this May when customers with (800) lines can switch long distance companies without having to change their numbers. But AT&T won't necessarily be the loser.

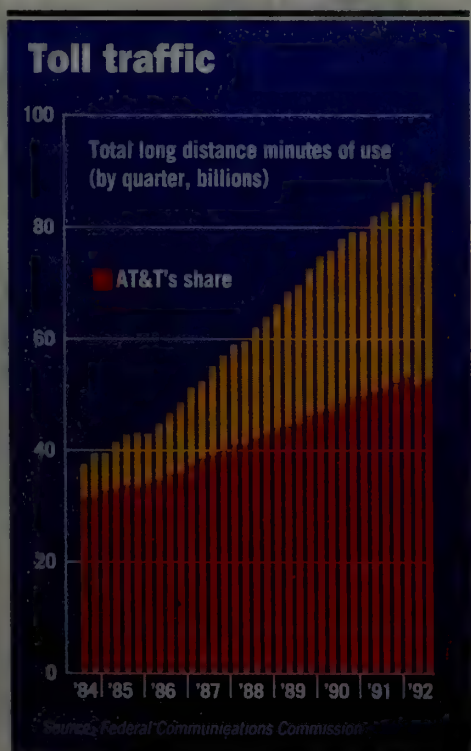
Slowly, too, legal restrictions put on AT&T because of its huge size are being removed. Eight years after it was forced to divest its local Bell phone companies, AT&T is still heavily regulated. It still has to telegraph its marketing decisions by filing long distance prices in advance with the FCC, an obligation MCI and Sprint have so far escaped, in spite of AT&T's strenuous efforts.

At the same time, the FCC is very gradually reducing a tilt in the access fee formula that helps smaller carriers at AT&T's expense (*see diagram*). The McCaw deal signals that AT&T may someday be able to end-run the local telephone utilities if access charges don't come down fast enough. Thus does technology outflank clumsy governmental efforts to interfere with progress. AT&T, for its part, is not above asking Washington for protectionist favors; it wants to strengthen the ban on the regional Bells from the long distance market. AT&T will probably lose this battle someday, but by then it will be defensively equipped with a far-reaching cellular business.

Forty-five years ago Bell Labs invented the transistor and thereby set in motion the forces that are joining telephony to computing. Now, as regulatory limits are becoming less constraining, AT&T is finally set to capture the full benefits of that union. Old Ma Bell, long derided as the ultimate corporate bureaucracy, is transforming itself into our biggest high-technology company. Corporate wonders never cease.



It ain't fair, says AT&T. A phone call from Kalamazoo to Grand Rapids, using a long distance carrier other than AT&T, travels almost entirely on Michigan Bell lines. If AT&T handles the call, it mainly uses its own facilities. Yet AT&T and its competitors pay identical "access" charges.



AT&T's market share, as measured by the FCC in minutes of network usage, has stabilized at just above 60%. But prospects are good for AT&T's profitability as lower costs boost overall traffic usage.

This German grocery chain seems to know something its U.S. competitors don't know. That's why its invasion of the U.S. has been so successful.

Bag your own

By Marcia Berss

IT'S ONLY 9:15 on a midweek morning, but the parking lot of the Aldi grocery store in a Chicago suburb is already filling up. By 10:00 customers, their carts overflowing, are lined up eight deep at the checkout counters. But no one is grouching. Where else can they get a whole six-pack of cola for 90 cents or a loaf of white bread for 25 cents?

The U.S. Aldi stores are privately owned by Germany's \$21 billion (estimated worldwide revenues) Aldi grocery chain, which accounts for 13% of all consumer food purchases at home in Germany. Aldi is owned lock, stock and barrel by brothers Theo and Karl Albrecht, who are worth around \$5 billion (*FORBES*, July 20, 1992).

The Albrechts run a tight ship. The stores don't advertise; they aren't even in the phone book. Stores are located away from costly real estate such as strip malls. They generally measure 8,000 square feet, one-third the size of a typical grocery store. Aldi situates its smaller-than-average stores mostly in farm towns or blue-collar, immigrant or low-income neighborhoods—the Albrechts like dealing with big working-class families that eat at home and eat heartily. Unlike warehouse chains, Aldi does not require its customers to buy by the case.

At Aldi, costs are ruthlessly controlled. A shopper could starve to death waiting for an employee to answer a question. Checks and coupons are not accepted, and customers bag their own groceries—and bring your own bag if you don't want to pay 4 cents for every Aldi bag.

There are no stock boys because there are no shelves to stock. Goods are sold out of special, easy-to-open cartons. The guy wheeling a pallet of canned vegetables to the sales floor is

probably the store manager. Aldi stores carry only about 600 items (most grocers have 10,000), so cashiers memorize prices and move faster than scanners.

Aldi sells only high-volume items, mostly canned produce, paper goods, snacks, frozen foods. There are just two kinds of ice cream, Aldi's own-label Neapolitan or vanilla. Limiting the range of products this way and selling most under its own label means that Aldi can cut prices even below Wal-Mart—the low cost benchmark. One example: Aldi's ap-

Aldi grocery store in suburban Chicago

Shuns costly real estate like major intersections and strip malls—but customers know where to find the stores.

Churchill & Meier



ple juice sells for \$1.19 per 64 ounces, versus \$1.58 for Wal-Mart's private-label offering.

Aldi underprices other chains by a bigger margin. Its saltine crackers sell for 39 cents, versus 79 cents at a local Jewel grocery market. The discounter also avoids low-profit lines such as \$10-a-pack Pampers from Procter & Gamble. It buys private-label diapers for about \$4 and sells them for \$5.

The result of low overhead, high volumes and heavy use of private-label goods is margins that are the envy of most grocers. Industry ana-

lysts estimate Aldi's net U.S. profit margins at 1.5% of sales, nearly double the grocery store industry average. Aldi's sales are an estimated \$350 per square foot, much higher than the \$275 posted by well-run, full-line grocers like Winn-Dixie.

The Albrechts like what they have going in America, and American shoppers say the feeling is mutual. The chain's U.S. sales in 1992 were an estimated \$1.2 billion, up from about \$780 million in 1989. Another 20 or so new stores will be added this year to its present total of 375. Many of those will be in the Midwest, but the Albrechts are beginning to move Aldi eastward, too.

The Albrechts have covered their other flanks by buying an 11% stake in Albertson's, the \$9.7 billion (sales) food chain whose 651 stores are concentrated in the West and South. Theo Albrecht bought most of the stake in the early 1980s at an average price of about 4¼ a share. In the last five years, Albertson's has been the best-performing grocery stock in the

U.S. Recent price, 48¾, making Albrecht's \$60 million investment worth more than \$710 million at current market value.

The brothers Albrecht have succeeded in limited assortment selling, where Kroger and A&P tried and gave up. The family and the company are extremely reluctant to discuss their tactics and their strategy. Why let competitors in on a good thing? Grocery store consultant Jerry Pinney describes Aldi as "a hidden giant," and the Albrechts would as soon keep it hidden.

You hold your
child's hand when
she crosses the
street, you won't
let her climb to the
top of the jungle
gym and you
make her wear a
life preserver in
the kiddie pool.



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Vehicle Car Safety
Standards.

*Think of us as very
over-protective parents.
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one of the few minivans
to meet 1993 Federal
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standards.**

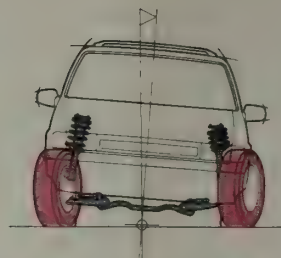


Front cornering lamps provide added side-view illumination when turning at night.

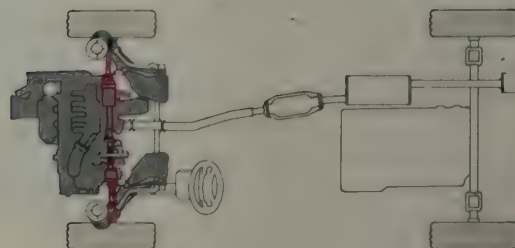
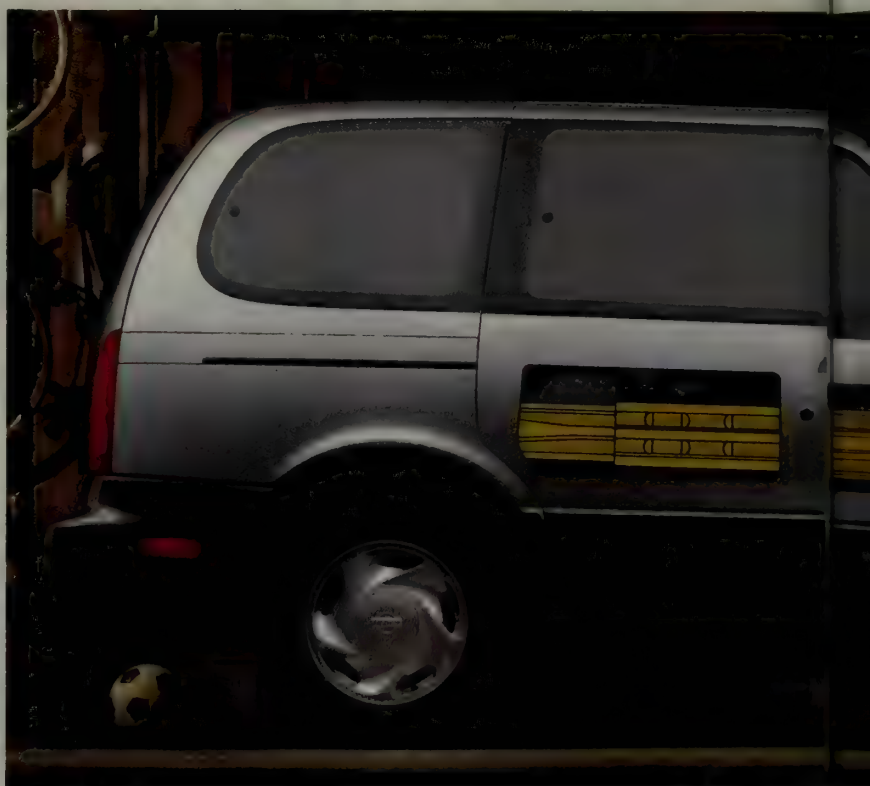


At Nissan we believe the more durable a car is, the safer it is. For instance, to test its durability, the Quest logged nearly one million miles.

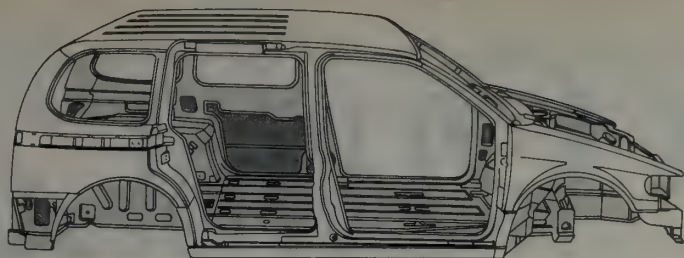
Nissan Motor Corporation in U.S.A. Smart people always read the fine print.
And they always wear their seat belts. *Except models with privacy glass.



*We took a very level-headed approach to safety.
A front stabilizer bar helps keep the Nissan Quest
level during cornering or lane changes.*



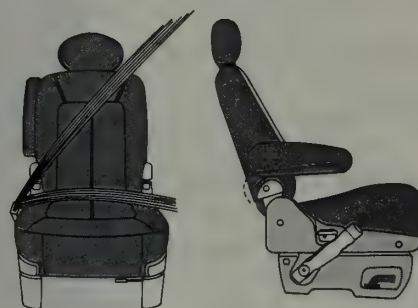
*By placing the engine
weight over the drive
wheels, our sophisti-
cated front-wheel drive
provides added traction.*



Did we mention the Nissan Quest comes with its own body guards? Steel side door guard beams provide added protection in case of a side impact. And pillar/roof reinforcements increase body rigidity.



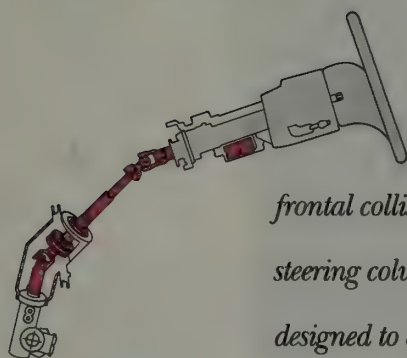
When it comes to braking we didn't stop with our power-assisted brakes. An optional 4-wheel anti-lock braking system is also available.



To us concerns about safety are automatic, which is why we've included front automatic motorized shoulder belts. And 3-point seat belts are found in outside positions in second and third row seats.



Child safety lock has been wisely included on the sliding side door.



A few items on the Nissan Quest are actually designed to break down. In a frontal collision, the steering column is designed to collapse to help prevent it from intruding into the passenger compartment.

The New Nissan Quest



It's time to expect more from a minivan."

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driving experience on video-
tape featuring remarkable
innovations your whole
family will enjoy. Free.

But, hurry. These
tapes may go faster than
the minivan itself.

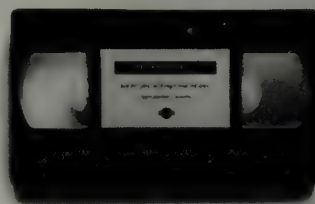
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Quest



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They are (make, model, year):

The vehicles I am considering
include (make, model, year):

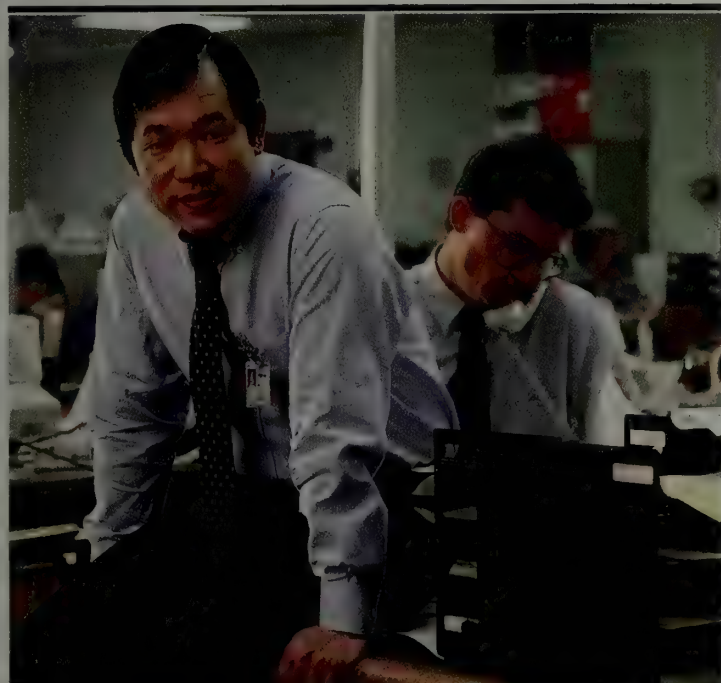
For additional information, please
call 1-800-NISSAN-3, ext. 118.

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Steve Hui had big plans for Everex Systems. So big that the company is now in Chapter 11.

Deserted by destiny

By Julie Pitta



Robert Holmgren
Steve Hui, Everex Systems' cofounder and former chairman

Bored with his core business, he began chasing dreams.

"TECHNOLOGY SHOULD NOT be dependent on schedules," Steve L.W. Hui told a *FORBES* reporter 18 months ago. "I want to build something here for destiny."

No wonder Hui was feeling immortal: He cofounded Everex Systems Inc. in 1983 and built the IBM-PC clone maker into a \$400-million-plus (sales) company in less than eight years; at the peak, in mid-1989, Hui's 8.5% of the company was worth nearly \$25 million.

Hui took a *FORBES* reporter on a grand tour of his facilities, saying: "In the next five years many pages will be written in the history of the computer industry, and more than a few of them will be written about Everex."

In San Jose a group of engineers was at work on developing a new microprocessor; another in Santa Ana

tinkered with Unix software; and yet another in a storefront near the company's Fremont, Calif. headquarters was developing a computerized drafting table. There were even teams trying to clone the Apple Macintosh and Sun Microsystems' engineering workstations.

Hui admitted that this kind of spending penalizes earnings. "It has to be one crazy CEO to do long-term research. Not even my people here think I can do this."

His own people were right. Even as he spoke, Hui's Everex was weeks away from reporting a \$48 million loss on revenues of \$425 million for fiscal 1991 (ended July 31). While Everex has yet to report its fiscal 1992 numbers, a spokesman says the company could report losses of as much as \$120 million on revenues of around

\$500 million. On Dec. 23, 43-year-old Chairman Hui resigned. Two weeks later Everex's creditors—who, unfortunately for Hui, did believe in schedules—pushed the company into Chapter 11 bankruptcy.

What canceled Hui's date with destiny? Consider this: Just three years ago Everex and Dell Computer Corp.—both of which sell primarily through telemarketing—were roughly the same size. But Hui had already grown bored with the PC business. Destiny, for him, lay across the horizon. Meanwhile, Dell, which was combining a solid product line with superior service and quick delivery, was proving that the PC business was anything but boring (*FORBES*, Oct. 12, 1992).

Hence, when computer price wars hammered the prices of increasingly more powerful PCs, from over \$8,000 in 1990 to as little as \$3,000 today, Hui was left with a bunch of little research projects that produced nothing and a moneylosing clone business. On the other hand, Dell, almost fanatical in its concentration of resources on its prime business, keeps its phones ringing off the hook with orders. Thus Dell has attained economies of scale that enable it to cut prices and yet maintain both service and profit margins.

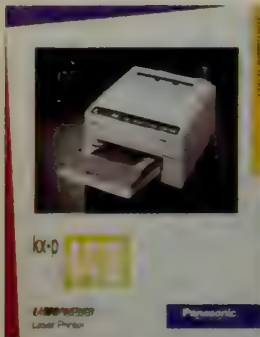
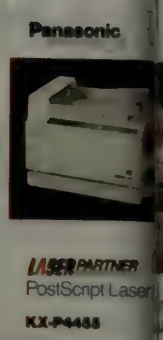
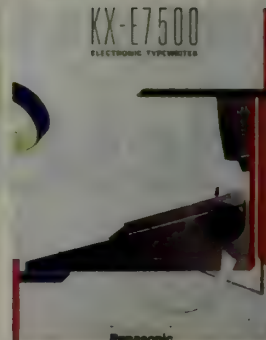
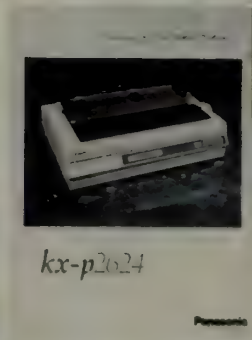
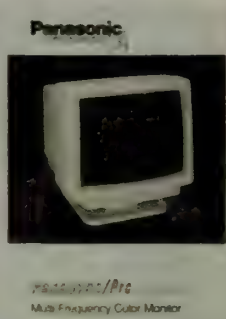
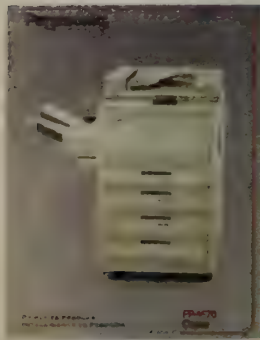
Dell's market capitalization now tops \$1.6 billion and its revenues are four times Everex's. Everex's shares fetch just pennies.

Computers are a merciless business. If you stop running long enough to congratulate yourself—as Hui did—you may well find yourself trampled to the pavement by people coming up from behind.

Robert Teal, a director on Everex's board since 1987, remains optimistic. He says that turning the company around will simply be a matter of concentrating on its core business. And what business would that be? "A lot of analysis needs to be done before we figure out what Everex's core business is." When asked the same question, Everex cofounder, and now chairman, John Lee has a similar answer. "The company's core business? Hmmm. I'm not sure how to answer you there."

Dell had that one figured out a long time ago.

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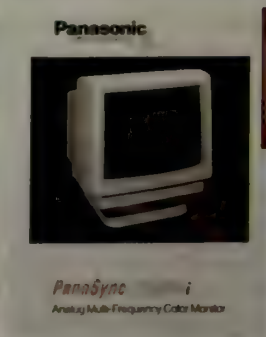
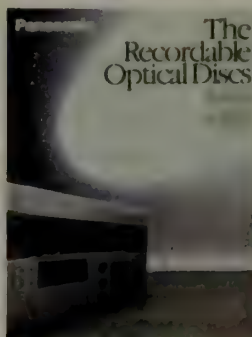
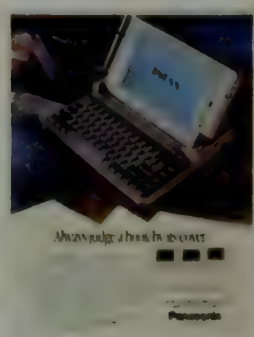
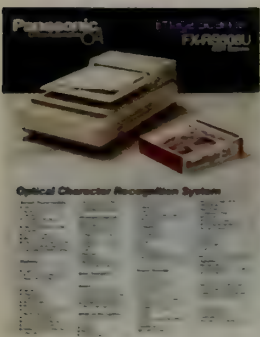
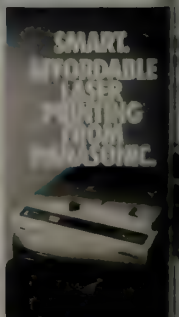
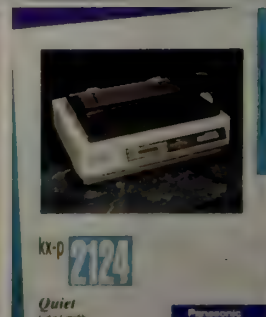
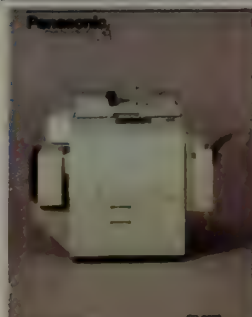
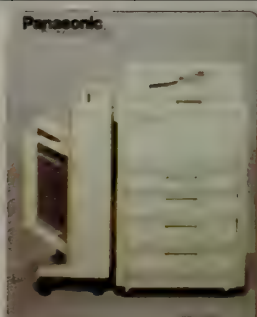
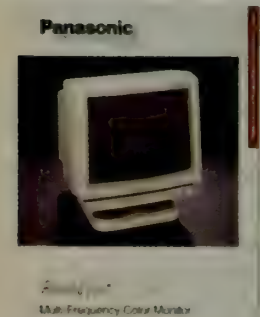
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Office Automation



The men and women of the Shapira family have lined up on different sides in a nasty cousinly struggle over the future of the maker of Heaven Hill bourbon.

Kentucky feud

By Carol M. Cropper

HEAVEN HILL DISTILLERIES, Inc., America's largest family-owned distillery, is caught in the kind of squabble that has caused many another family firm to lose its independence. Four female heirs to this \$174 million (fiscal 1992 revenues) company are fighting the male heirs who run it. The women want to sell out. They claim their male cousins pay them paltry dividends and ignore their questions about the company.

Situated in bucolic Bardstown, Ky., the distiller of traditional Kentucky bourbon whiskey, and distributor of vodka, scotch and other liquors was founded in 1935 by five Shapira brothers, sons of a Polish immigrant who made his start around the turn of the century hawking goods from a horse-drawn wagon he drove around rural Kentucky. The five brothers (only George, 88, is still alive) produced two male heirs—Max and Harry—and five female—Miriam Ostroff, Geri Morguelan, Marilyn Sayetta, Phyllis Parish and Ellen Miller.

The seven inherited their fathers' stakes in more or less equal amounts, but the males were put in charge. George remains president, but Max, 49, a Harvard M.B.A. and onetime Morgan Guaranty officer, runs the distillery. Max's cousin Harry, 45, is a director and a vice president. Though major shareholders, the women have had no part in management. When Miriam Ostroff asked for a job at the distillery ten years ago, she got a pat on the head and was told to go away.

She won't go away. "We've got an asset that's worth a lot of money," Ostroff says. "We would like to be able to sell it. Max is doing everything to prevent us from doing it." A minority shareholder filed a lawsuit seeking financial information she says she needs to properly market her stock.

Ostroff's husband, a director, also sued for information. Management argues such details are confidential and would harm Heaven Hill if available to competitors. A lower court has agreed. The cases are before the Kentucky Court of Appeals.



Photographs by Brian Smith



Cousins Marilyn Sayetta (left) and Miriam Ostroff
Fighting their Kentucky kin over a product older than the state.

Just how much is the distillery worth? A 1991 evaluation done by a Louisville firm and paid for by the company valued Heaven Hill at \$75 million—about 12 times net earnings of \$6 million. In the 1992 fiscal year, family members split \$574,000 in dividends. The rest was plowed back into the distillery.

"We're getting a less than 1% rate of return on the fair market value of the stock," the 53-year-old Ostroff

fumes. "Nobody in their right mind gets that low a rate of return."

Two years ago management offered the women \$22.6 million for their 48.3% interest—an offer that would, in effect, value the whole company at a bit over \$46 million. No thanks, the women responded. They have heard rough estimates ranging from \$90 million to \$175 million. They say Bear, Stearns, for instance, estimated the company was worth at least \$100 million in 1990.

Max Shapira, in a deposition taken in one of the lawsuits, accuses the investment bankers of bamboozling his female cousins by coming up with "ludicrous" estimates in an effort to get business.

Of the five female cousins, only one—Max's sister Ellen Miller—sides with management. The management side owns 47.1% of the stock—slightly less than the four nonmanagement cousins. Almost 4% of the stock—the swing vote—is in a trust set up for the equal benefit of Ostroff and her brother, Harry. The catch is that the swing votes are effectively controlled by the males. In a third lawsuit, the women are fighting for control of this swing-vote block.

Ostroff argues Heaven Hill would be wise to sell out while there is still time. U.S. sales of hard liquor have dropped, and the distillery business has consolidated. "If we are the last or one of the last of the small ones, we're going to have to compete against these big conglomerates," she says.

But her managerial cousins must be doing something right: Heaven Hill's revenues have risen from \$84 million in 1986 to more than \$174 million last fiscal year. Sales of its Evan Williams, Elijah Craig and Heaven Hill bourbon have done well thanks in part to aggressive overseas marketing and to Heaven Hill's practice of selling to distributors while the liquor is still aging. That strategy, not followed by other distillers, allows Heaven Hill to book revenues before the inventory is actually shipped.

Max and Harry apparently have decided that numbers speak louder than words. Max Shapira responds to his cousins' complaints with a tart: "Sticks and stones may break my bones but words will never hurt me."

But angry cousins could.

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You've heard plenty about both the health care crisis and the problem with plaintiff lawyers. Here's one way they intersect in Albuquerque.

The land of bombardment

By William P. Barrett

AS TRAFFIC ACCIDENTS GO, this one wasn't much. The car I was driving in Albuquerque, N.M. was waiting for a red light to change. A city bus, which had stopped behind me, suddenly lurched forward—going maybe 2mph—and rear-ended my car. Although the accident crumpled my bumper, no one appeared hurt in the slightest. The bus driver, who told police his foot had slipped off the

brake, wasn't even ticketed.

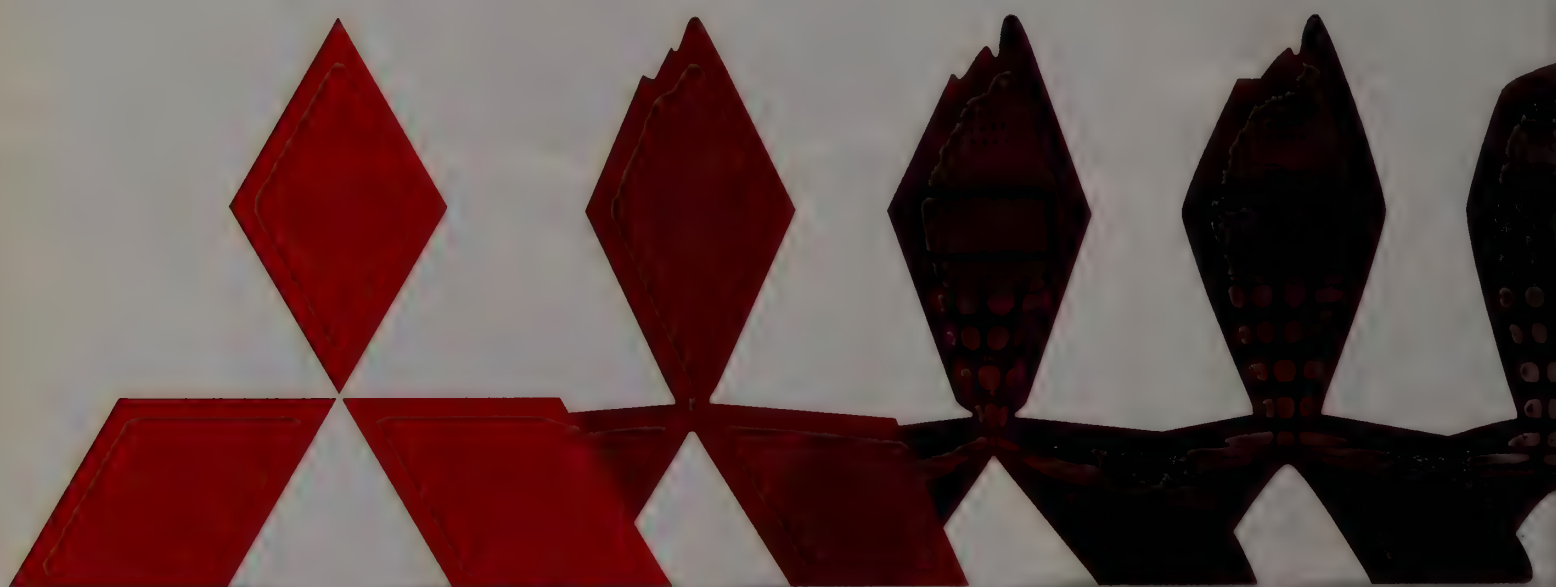
The real action came a few days later. I started getting besieged by phone calls and letters on behalf of a half-dozen chiropractors, some of whom have made repeated solicitations. Their basic pitch: Come in for a free exam and X ray. Further treatment won't cost you anything.

Dr. Jack L. Love, for instance, caringly advised in a letter, "If your

vehicle was damaged during your accident, it is likely you will need professional care for whiplash." Dr. Ted Coffman, who heads Allied Physicians Clinics, was kind enough to send a "gift certificate" good for one free visit. Plus this helpful warning in an accompanying brochure, "Do not rule out the possibility you may have a hidden injury."

How had all these solicitous practitioners found me? Seems that Albuquerque accident reports become public record after a few days, available to anyone who shows up at the police department. Each morning, competitive runners gather the names—a fistfight once broke out over who was first in line—and the phone calls soon follow. I got three in 51 minutes.

One was from a woman named Frances who described herself as a "medical consultant" to a chiropractor. She called twice. Minions of Dr. Coffman contacted me by both phone and mail. A woman telephone marketer named Robie finally provid-



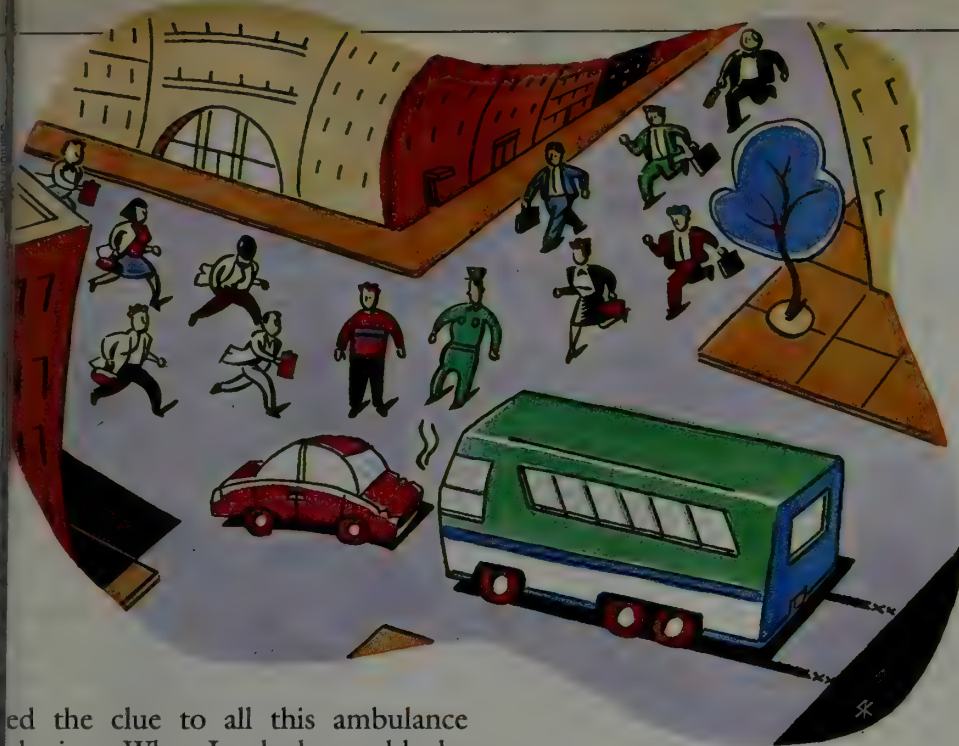
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ed the clue to all this ambulance chasing. Why, I asked, would she contact someone so clearly involved in such a minor accident? "Well," she blurted out, "the report said you were not at fault." *Not at fault?* What's that got to do with proper medical treatment?

I found out what it had to do with it when I checked the docket of the local

federal court—situated, aptly enough, on Gold Avenue. Here was a pending lawsuit challenging a recently enacted New Mexico ban on direct-mail solicitation by lawyers. Witnesses in the case described the cozy relationship between some New Mexico lawyers and chiropractors.

In sworn statements, two former employees of Dr. Coffman testified he would steer patients with claims against an insurance company only to lawyers who agreed in writing to pay his chiropractic bills—no questions asked about the billed amount. This was called a "letter of protection." According to testimony, M. Terrence Revo, the Albuquerque lawyer challenging the lawyer-solicitation ban on free-speech grounds, used to get cases from Coffman but got chopped off the referral list when he failed to live up to his protection letter.

None of this, especially chiropractor cold-calling, appears to be illegal under New Mexico law. Exasperated state regulators call the practices "unethical." All of it drives up everybody's health care costs.

Several weeks after the accident, I'm still feeling just fine. The calls and letters have stopped. But when the Clinton Administration starts grappling with health care reform, it might take a good look at legal practices as well as at medical practices. ■



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Despite tort reform, Alabama juries continue to hand out multimillion-dollar verdicts.

Unreformed

By David Frum

WHAT'S THE WORST PLACE in America in which to be a civil defendant? There is a lot of competition for this particular booby prize, but some unhappy Alabamans think that it belongs to them.

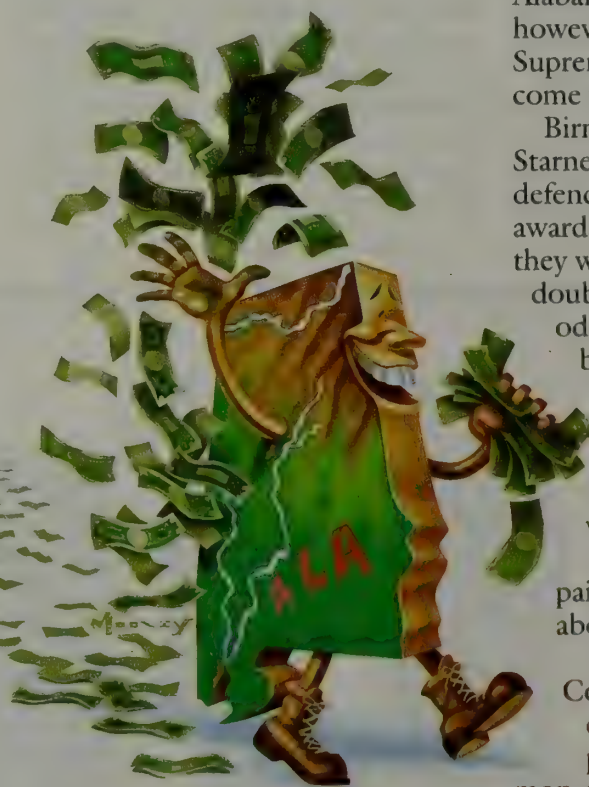
Over the past five years Alabama juries have awarded more than half a billion dollars in punitive damages, despite a tort law meant to curb them. In a 1988 Macon County case, for instance, \$5 million in punitives was stacked atop \$1,000 actual damages. In a 1989 Baldwin County case, \$10 million in punitives was piled on \$21,000 in actual damages. And \$2 million in punitive damages was charged on \$254.50 in actual damages in a Chambers County case just this past September. It's awards like these that move Alabama State Senator Walter Owens to blast his home state as "the worst state in America for punitive damages."

Alabama thought it had solved this problem in 1987. A package of tort reform laws adopted that year capped punitive damages in most cases at \$250,000, damages for pain and suffering in medical malpractice cases at \$400,000, and malpractice damages for wrongful death at \$1 million. It restricted plaintiffs' choice of venue, preventing them from shopping for the most permissive court. And it offered defendants new protection against frivolous suits: Before 1987 Alabama judges had been required to let tort actions go to trial if the plaintiff could offer even a "scintilla" of evidence for his claim; the new laws required judges to release defendants unless the plaintiff could present "substantial evidence" for his claim.

The early results were promising. Between 1982 and 1989, malpractice premiums charged by Alabama's leading insurer of obstetricians and gynecologists

quadrupled, from \$10,324 to \$43,118. The rate of increase since 1989, after the new law went into effect? Virtually zero.

That's the good news. The bad news is Alabama's Supreme Court has steadily whittled away at the reforms. It struck down the ceiling on malpractice awards in 1991. It has limited the power of courts of appeal to review



punitive damage awards. It has said that plaintiffs can recover punitive damages even when they claimed no actual damage. Worse may be to come. Led by Chief Justice Sonny Hornsby, a past president of the Alabama trial lawyers' association, a 6-3 pro-plaintiff majority has dominated the court. The court could use one of two cases now before it to abolish the punitive damage cap altogether.

Alabama's juries seem to have gotten the high court's message. In 22 large punitive damage awards last year, juries gave away a total of more

than \$123 million, despite the \$250,000 cap. Twenty-two of the largest punitive damage awards in 1988 were worth less than half that amount.

The Supreme Court of the United States appears to regard Alabama's punitive damages as especially out of control. The Court chose an Alabama case, *Pacific Mutual Life Insurance Co. v. Haslip*, as an opportunity to rule last year that excessively large punitive damages could indeed be unconstitutional. The Court went on, however, to say that the award at issue in *Haslip*, an award 200 times larger than the plaintiff's out-of-pocket losses, was not unconstitutional—because, the Court said, Alabama jury verdicts were subject to rules that protected defendants. With each new Alabama Supreme Court decision, however, those rules—and the U.S. Supreme Court's reasoning—become wobblier.

Birmingham defense lawyer Stan Starnes says that what upsets Alabama defendants most is not the size of the awards against them but doubts that they will be treated fairly by judges—doubts fueled by Alabama's methods of picking those judges. Alabama judges are nominated by political parties and then elected on a partisan ballot. And their campaigns are largely paid for by the lawyers who appear before them. Under Alabama law, leftover campaign funds can be spent on just about anything.

For instance, the two Supreme Court justices who faced contested reelections in 1992, pro-plaintiff Democrats Reneau Almon and Janie Shores, raised nearly \$500,000 each, somewhere between half and three-quarters of it from plaintiff lawyers. Both Shores and Almon won handily. Shores has \$182,000 remaining in her campaign fund. Almon has \$90,000 in his. Not bad little nest eggs.

By all accounts, Almon and Shores are good and honest judges. But with judges raising money from plaintiffs' lawyers and juries handing out punitive damage awards out of all proportion to actual damages, Alabama is getting to be a mighty frightening place to do business.

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As sex was a taboo subject with the Victorians, so with us is the subject of group differences in IQ.

Gambler Dan

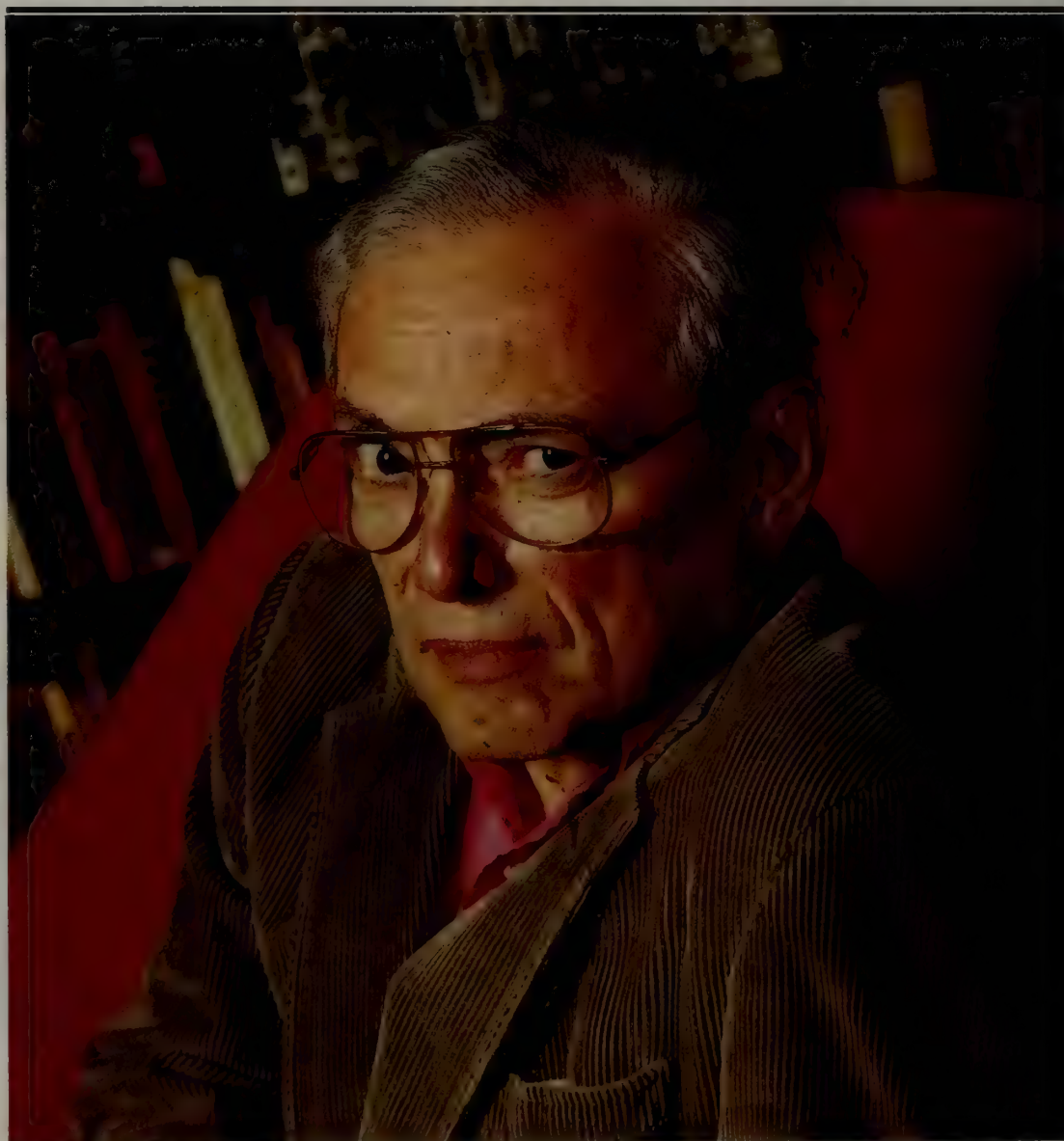
By Peter Brimelow

DANIEL T. SELIGMAN is distracted. He is frequently distracted. His small, slim figure can often be seen moving distractedly through *Fortune* magazine's corridors like a shy, slightly austere version of Alice in Wonderland's White Rabbit, preoccupied by his popular "Keeping Up" column.

But today, secure in his Upper East Side Manhattan apartment burrow where he works, Seligman's distraction has a surprisingly unscholarly cause: gambling. He is banker for a syndicate that is attempting to "pick six"—select six winners in a row—at New York's Belmont Racetrack.

Gambling, in many forms, is a passion with Seligman. The 210-megabyte computer in his home office contains a meticulous cumulative record of his winnings and losses over several years. Chiefly losses at the moment, despite reasonable winnings on the presidential election. "It's been a bad year," he says wryly.

Now Seligman is making a different sort of gamble, potentially career-wrecking for anyone without his professional status and seniority. (At 68, in his forty-third year with Time Warner and his seventeenth year of "Keeping Up," he's technically retired and on contract.) In *A Question of Intelligence: The IQ Debate in America* (Birch Lane Press, \$16.95), Seligman defies one of the most powerful contemporary taboos. He reports, clearly and calmly, the mount-



Author Daniel T. Seligman

Gambling with a powerful taboo.

ing scientific evidence that human intelligence:

- can be measured;
- matters, a lot;
- differs by heredity (50% to 80%);
- (most controversially) differs, on average, among various groups, such as races.

Seligman says the modern taboo against discussing intelligence and

race can be compared only with the Victorians' repressiveness about sex. He's nearly been repressed already. Whittle Communications originally commissioned his book but backed off, although paying the full fee, apparently because it feared repercussions in the school market. Seven major publishers declined the manuscript thereafter.

And this taboo has led to an extraordinary paradox. Seligman points to an exhaustive survey by Mark Snyderman and Smith College's Stanley Rothman, published in 1988 as *The IQ Controversy*, that documented how all the above points are regularly denied in the popular media but simultaneously quietly accepted by the majority of experts, such as behavioral geneticists and cognitive scientists.

The conventional objection to IQ tests: They are inevitably "culturally biased." But Seligman reports that during the 1980s scientists decisively refuted this claim in several ways. For example, the University of Minnesota's massive survey of separately reared identical twins has found uncanny similarity in their IQs, and many other characteristics, despite extreme and even bizarre variations in their environments. (In one case, the twins were raised respectively as a Hitler Youth member and as an observant Jew.) Similarly, the work of Berkeley's Arthur Jensen suggests that IQ is directly correlated with objective material realities, such as fast reaction time and various physical processes within the brain itself.

There is, of course, no mystery in the widespread denial about IQ. It has offensive implications in a society based on the commendable proposition that all men are created equal so far as their rights are concerned. IQ, however, is not about rights; it is about ability.

Forbes: You report that, on average, identical twins are 5 points lower in IQ than single births, and this may be why there have been relatively few prominent identical twins. Well, I'm an identical twin. If I tell you I find this offensive, your answer would be (a) it's true on average, not for every individual and (b) too bad?

Seligman (perhaps demonstrating why he is uncomfortable doing radio talk shows): Yeah.

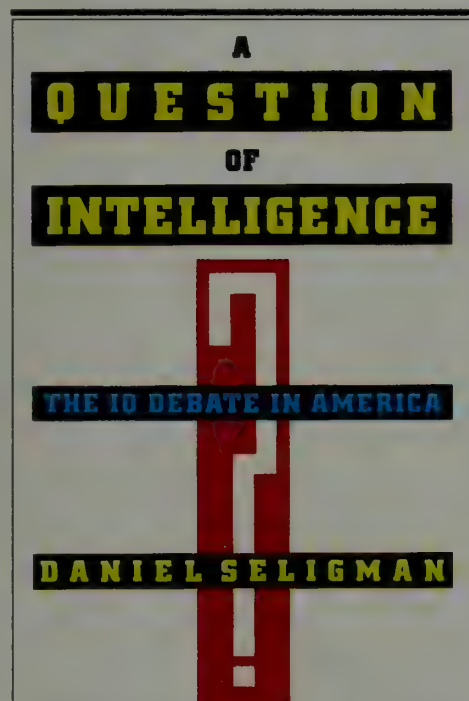
Twins are not a political issue (yet). But blacks and other minorities emphatically are. Seligman's figures show that American blacks have consistently tested, on average, about 15 to 18 points below American whites, who average 102.

Seligman does not argue that this means any white you stop in the street will be necessarily smarter than any

black. Group averages tell nothing about individuals. Blacks score at all ability levels, including the very highest. Individual black scores as high as 200 have been recorded. There are about 5 million American blacks who score above the white average.

And for those who still believe in white supremacy, Seligman has bad news: On average whites score lower in IQ tests than East Asians.

So why drag all this into the open at a time when reasonable people want better race relations? Seligman's answer: Since IQ is a good measure of potential job performance, it cannot



be ignored in hiring and promotion, as affirmative action quota policies dictate. He suggests that, in attempting to ensure equal representation at every level, public policy may be on a collision course with reality.

Intelligence in a population, Seligman points out, is distributed in a "normal" or bell-shaped curve around the average, or median, score. The further from the median, the more dramatically the number of individuals in that range shrinks.

Thus an IQ level of 115 is considered the threshold for top managerial and professional jobs. Only about 16% of whites, or about 30 million, score at or above it. There are many individual blacks in that range. But their proportion of the total black population is smaller, because the 115

threshold is further from the black median IQ.

Seligman cites University of Delaware sociologist Linda Gottfredson's work: "It suggests that the distribution of income and occupations may already be about what the IQ numbers would predict."

"The black-white IQ gap is only one chapter out of 15 in the book," Seligman says. But, he adds resignedly, "It's what people really want to talk about."

Among the issues discussed in those other 14 chapters: the potential productivity gains if testing were more widely used (enormous, perhaps as much as 1% to 2.5% of GNP); the slippage of IQ with advancing years (perhaps more than 20 points from age 25 to age 60); and, unexpectedly, that love is not blind (the IQs of husbands and wives correlate as closely as the IQs of siblings).

Then there's the case of East Asians and Jews. Both score significantly above the white average. But in quite different ways—East Asians are more spatial, Jews more verbal.

Seligman has this fact handy if (and when) he is accused of Nazism. "I'm not aware that the Nazis were interested in IQ testing. It would have shown that what they called an inferior race was actually superior."

Even more unexpected, Seligman says, twin studies seem to show a strong genetic component in political attitudes. He normally ascribes his own politics to the philosopher Sidney Hook, with whom he studied at New York University. But this finding has made him think anew about his father, son of a Jewish immigrant from Lithuania, who he says was "the only Republican in the fur business."

Seligman's mother was an Irish Catholic in the days when mixed marriages were rare. He himself has been a discreetly devout atheist since the age of 9. Seligman and his wife of 39 years have two children and four grandchildren, the most recent two adopted Guatemalan boys.

Gambling at Belmont is one thing. Isn't gambling by taking on this forbidden subject something else?

As a battle-scarred columnist, Seligman laughs grimly. "You get worse mail when you attack the feminists," he says.

YOU DON'T GO BACK TO BASICS. YOU TAKE THEM FORWARD.

There is a curious shift in business these days, "back to the basics." And it seems as if the sophisticated fast-trackers of the '80s have been transformed into the business fundamentalists of the '90s.

Nice try, guys. The simple truth is, basics are something you start with and take forward. Not retreat to.

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C o n s e c o

Want a postage-stamp-size piece of the U.S.? Apparently many Chinese do.

A cheap ticket to the promised land?

By Nina Munk

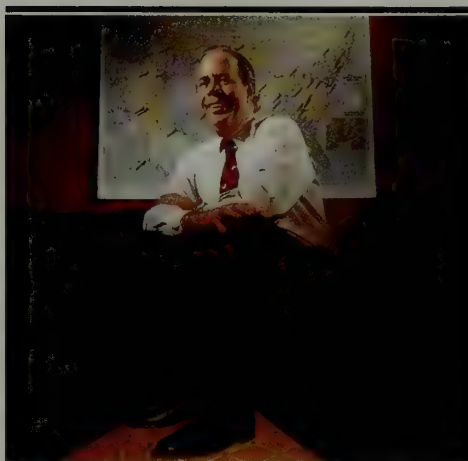
AT ABOUT \$30 a crack, Scott Moger, 50, former motion picture and television marketing man, is selling chunks of America. The idea is both new and as old as the hills.

Flash back 13 years to Brooklyn, N.Y., where Moger's parents were cleaning out their closets. Among the old baseball cards and other treasures they found a "deed" to a square inch of Canada's Yukon Territory that young Scott had fished out of a box of Quaker cereal in 1955. An idea hit Scott. Why not buy parcels of land in every state and offer people a chance to buy a piece of America in the form of a deed to postage-stamp-size pieces of land in every U.S. state?

Keeping his day job as a film distributor, Moger started contacting real estate brokers across the country, looking for small parcels he could buy cheap—around \$25,000 (\$500 an acre)—and resell in square-inch pieces.

Six years and \$100,000 later, Scott Moger owned an acre in each of the 50 states—310 million little chunks of America, enough for more than 6 million "deeds." He wound down his other responsibilities and concentrated on his promotion scheme full time.

First he had to prove to the Securities & Exchange Commission and New York's Attorney General that his company, American Acres Marketing Corp., wasn't involved in land speculation but was only selling a novelty item. He says legal fees and expenses cost him \$50,000. His annual tax bill, including the accountant's fees: another \$5,000.



American Acres' Scott Moger

Selling the American dream by the inch.

This accomplished, he turned to marketing. In June 1986 Moger approached Cracker Jack about putting a miniature land deed in every box. No sale. Moger tried PepsiCo, Campbell Soup, General Mills and Ocean Spray. Still no takers. "It was a cute idea," recalls Pierce Pelouze, Campbell Soup's vice president for promotion. "But what does an inch of land have to do with soup?"

Moger had sunk some \$350,000 of his savings and salary into his dream. Broke and, in his words, mentally exhausted, he took a job with his brother's Los Angeles-based advertising agency. But the land-deal idea just wouldn't go away.

The coming Columbus quinquennial in 1992 suggested a marketing hook. In May 1990 Moger sent out sales brochures for his land deeds, which he promised would profit from

a "patriotic fire fueled by an incredible frenzy of media attention." But Columbus was a Dead White European Male and DWEMs were pretty unsalable in the multicultural frenzy gripping the U.S. media in 1992.

Entrepreneurs never give up. Setting up a toll-free number (1-800-DEED-USA), Moger hired a public relations firm in the summer of 1991 to get him press in local papers and across the country. Helped by Christmas demand, he sold some 12,000 deeds, grossing about \$125,000. A drop in the bucket.

The promotion caught the eye of a Japanese company. Maybe land-hungry Japanese would want to own a piece of America. But before a deal could be made, Moger says, the Japanese company got into financial trouble. Still, it got Moger thinking. If Americans were not interested in his deeds, maybe foreigners would be.

As it turned out, they were, but probably not as souvenirs. Last spring Moger signed a deal with Harvard Fang, a Shanghai-born American who wanted to sell Moger's deeds in China. Fang bought 50,000 for \$15 apiece, or \$750,000; Moger keeps about \$11 on each deed. Fang promises to take at least 50,000 more.

Fang resells Moger's deeds, mounted on plaques, at \$50 apiece in hard currency to Chinese distributors, who then retail them for \$300 or more—roughly twice the average monthly salary. There's a strong suspicion that the poor Chinese customers are being had. Some of them seem to believe that owning even a tiny slice of America increases one's chances of winning U.S. citizenship or at least a visa. Fang denies that he or his distributors are behind the rumor—which the American embassy in Beijing says is totally false.

Moger, for his part, is looking for deals in other markets where customers crave a piece of the American dream—Korea, Hong Kong, Taiwan, Russia and Eastern Europe. Far from having turned cynical, however, he has gone on the Voice of America to help squelch the rumor. After a 12-year struggle, he thinks 1993 will finally be his year. "Any day now I know somebody will come to me and say, 'You know, I want 2 million of those things,'" he says dreamily. ■

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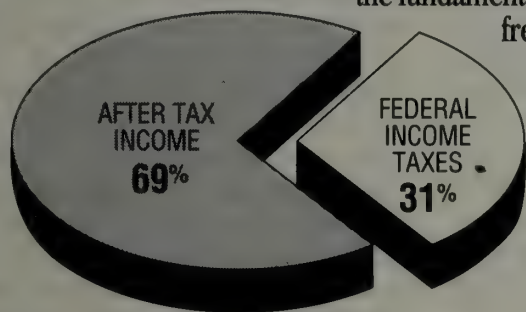
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*30-day yield (as of 12/31/92). **6.18%**, **6.52%**, and **5.30%** were the average annual returns for 1 year, 5 years and the life of the fund (commencement of operation 12/24/86) respectively for the period ended 12/31/92. The taxable equivalent yield is based on the 31% federal tax rate. Performance figures are historical and total return includes change in share price, reinvestment of dividends and capital gains and the effect of the \$5 account closeout fee on an average size account. You may have a gain or loss when you sell your shares. Yield, share price and return will vary. ¹A portion of income may be subject to the federal alternative minimum tax. ²Transactions will reduce your yield. ³The fund is not FDIC insured and does not offer a fixed rate of return. Fidelity Distributors Corporation.

CODE: FORB/STM/020193

A modem on a credit card? A hard disk the size of a matchbox? Make sure your notebook computer can handle these cute little attachments.

Upgrading your notebook

By David C. Churbuck

IF YOU WANT to add a modem, fax modem, network adapter or hard disk to your desktop computer, you'll probably find the room. All you need is an unused expansion slot and a willingness to unscrew the lid and fiddle for a few minutes with the insides.

Notebook and palmtop computers, however, are not so easily upgraded. With space at a premium, manufacturers of notebooks don't design boxes with a lot of empty air inside. Palmtop and notebook owners either put up with their limitations, or find themselves shackled to their manufacturer and a small choice of proprietary peripherals that can fit inside.

A solution is at hand: the PC card. This is a peripheral the length and width of a credit card, and not much thicker. It tucks into a standardized socket on the outside of a portable computer, thus liberating the computer owner to buy any brand of peripheral that will fit the standard.

Now, after years in which the industry has talked about plug-in peripherals, it has finally reached consensus on how the card sockets are supposed to work—in everything from laptop computers to telephones to copier machines.

So far, only a few portable computer models have PC card slots. But Christopher Goodhue, analyst at the Gartner Group, says that by 1996 as many as half of new notebooks will be built with the feature.

PC cards come in three flavors. The first is solid-state memory cards (also known as flash memory), typically with 10 megabytes of capacity. This is memory that doesn't fade when the power is off, so it can act like any

removable storage medium, such as a floppy disk.

The second kind of card incorporates a tiny Winchester hard disk with a platter less than 2 inches across, and typically holds 20 to 40 megabytes. The third variety of card serves communication needs. With one of these, your notebook acquires, say, a fax modem, enabling you to use the computer to send a fax or electronic mail, or perhaps a network adapter, so that you can bring the computer to the office and quickly attach it to a local network of computers.

While there is an industry standard on how a snap-in peripheral talks to a computer, there is enough ambiguity in the standards to create some minor incompatibilities. Getting a laptop to accept any card that comes its way requires some smart software inside the computer.

Databook Inc., a six-year-old firm in Ithaca, N.Y., makes a business of designing and marketing controller chips and software that connect the heart of a notebook computer to its card slot. The selling point for Databook's chips and software is their ability to automatically adapt the computer to a wide range of new cards, ironing out any eccentricities in how a card formats its electronic pulses. "Even though we have a standard, exchangeability is not automatic," insists Databook President Jeffrey Tai.

Notwithstanding that Databook is focusing most of its sales effort on just one market segment, clonemakers in Taiwan, Tai is in for some competition. Intel and Cirrus Logic also sell card controller chips featuring some degree of universality. To visualize

Hewlett-Packard's
Kittynawk

**Make room for
the snap-in
peripherals.**



the Intel chip, think of a wall socket that senses whether it has a European or an American shaver attached and adjusts the voltage accordingly.

Intel predicts that PC cards will become so commonplace in notebook computers that people will start using them on their large desktop machines. If and when the desktop machines do come with card slots, the cards will be very handy for transferring large files between portable computers and the office network. Snapping in one miniature hard disk is a lot easier than feeding 15 floppy disks, one at a time, into a floppy drive. The little hard drives are very affordable, too: Hewlett-Packard's Kittynawk, which packs 21 megabytes onto two 1.3-inch platters, wholesales to computer manufacturers at \$250 to \$300.

If you are about to buy a portable computer, make sure it has a PC card slot—preferably a thick one. A Type III slot, 10.5 millimeters (about half an inch) thick, can accommodate either one fat card or two thin ones. Dell Computer, NCR and Zenith Data Systems all make portables with a card slot.

Survival of the biggest

COMMENTARY BY RICHARD A. SHAFFER



Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter*.

IF YOU'RE LOSING, change the rules so that you're playing a game you can win. It's a strategy that has worked in personal computing.

The big companies were losing out. PCs were becoming a commodity and increasingly the buyers would choose the cheapest product rather than the name-brand product. That wasn't a contest that the major suppliers could win profitably. So they changed the rules: They would cut their prices sharply but by promising superior service and name-brand quality could still charge higher prices than the cut-rate clonemakers.

As a result, the big companies are gaining share of market again, and are likely to keep it.

Thus, although PC sales are rising, the number of suppliers is falling, and I believe it will continue to fall. Over the next several months, many secondary companies, those with sales below \$500 million or so, will incur significant losses and seek merger partners or find refuge in bankruptcy courts. Hundreds of still smaller companies will disappear in a mass extinction that will be largely unnoticed because most of these companies live on the margins of the industry, selling no-name brands through computer shopper magazines.

A number of secondary personal

computer vendors are in trouble already. Tandon, which has been around since 1975, has been forced to abandon the U.S. market. Sales at Zeos International have been flat or falling. Everex Systems recently filed for bankruptcy protection.

Meantime, profitability is improving at the larger PC companies, and so is the price of their shares. IBM's stock is in trouble because of the corporation's overall difficulties, not because of its PC business. Shares of Apple, Compaq and other big suppliers, however, have been rising steadily since last summer.

Last year the name-brand companies like IBM, Compaq, Dell Computer, Gateway 2000 and AST Research held less than 25% of the market. By the end of 1994 I think they could be up to 40%. Other companies may join the top tier, among them Digital Equipment Corp., Hewlett-Packard and AT&T's NCR, all banking on their financial strength and the size of their customer base. Tandy may make the list on the strength of its retail outlets. But woe to the smaller companies that sell on price alone.

What the big companies offer is not just a machine but a machine with value added. A computer product is more than the machine. It's the support, the packaging, the service, the software, the return and warranty policy. This is just where the larger vendors have strengths the smaller rivals can't match.

And the large vendors can get their prices down when they have to. In late 1991 Compaq, HP and IBM were all charging more than \$5,000 for computers based on Intel's 486SX microprocessor, while Gateway and many others were selling similar systems for \$2,000 less. These days, such systems are available for \$1,500 for most manufacturers, including Compaq, HP and IBM.

Product lines are also broader now.

Several manufacturers offer dozens of different models. IBM, for example, which used to sell only a few basic varieties of desktop computer, now has 22 models in its premium PS/2 business computer family, 36 models in the ValuePoint line of budget business computers and 21 models in the consumer-oriented PS/1. Similar expansions have been made at Apple, Compaq and Dell.

Service and support can be used to segment a market. An IBM PS/2, for example, comes with a three-year on-site warranty, versus one year for the ValuePoint, and service response time averages four hours versus next-business-day. The PS/2, using cutting-edge components and internal connections, has a faster hard drive, better graphics and a different look. While the ValuePoint line has wooed some PS/2 customers, other buyers reason that the extra features and longer warranty amply justify the additional cost.

In addition, IBM, Compaq and HP have begun to make their products available through new channels, such as discount stores and mail-order desks.

When the price gap was huge, many buyers were willing to gamble on lesser-known brands that did not offer first-rate support. But now that the price gap between the best PCs and the least expensive is small, computer buyers are paying more attention to factors other than price. The result is a flight to the brands that most buyers wanted but previously felt they couldn't afford. Apple, AST Research, Compaq, Dell, Gateway and IBM cannot keep pace with orders.

The flight to quality hasn't reached its limits, because the best-known suppliers can't yet meet demand. Plant capacity is adequate, but parts are in short supply, an imbalance that should right itself within a few months. When it does, the secondary PC companies, already in deep trouble, could face extinction. ■

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Only 1-2-3's 3D technology gives you easy access to 256 worksheets and lets you build 3D formulas just like you do in 2D. Which ultimately makes consolidating, comparing and analyzing data much simpler. In comparison, Excel's Workbook™ is a limited imitation of true 3D. And while working in Group Mode in Borland's® Quattro® Pro for Windows, simply cutting a range of data in one sheet unfortunately means you'll delete the data on every sheet. And what's worse, you can't undo it. All of which means if the analytical power of 3D technology is important to you, 1-2-3 is still the best choice you can make.

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Profiting from the software crash

COMMENTARY BY MICHAEL GIANTURCO



Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm that specializes in science and technology stocks.

THREE SOFTWARE STOCKS were conspicuously absent from the technology sector's late 1992 rally: In peak-to-trough declines last year Borland International dropped 77%, Lotus Development, 61%, and Symantec, 88%. Do the problems of these companies justify the magnitude of the declines? Are the stocks bargains now?

Microsoftitis afflicts all three of these packaged software companies. The transition from DOS to Windows left many software vendors behind. Lotus, with its famous 1-2-3, is still the dominant producer of DOS-based spreadsheets. But its Windows version was slow in appearing, and the delay cost it business. The customers went to Microsoft.

Borland's dBase and Paradox database programs for DOS-based computers are well established, but its first Windows database is only now, this winter, scheduled to appear.

Symantec, with a product range that includes file management tools and other utilities for DOS computers, is also still making the transition to Windows. With a fresh copy of Windows sold every four seconds—and desktop computers powerful enough

to run it available at bargain prices—the picture is simple. Software for DOS is on the down elevator. Software for Windows is on the up elevator.

Today rock-bottom computer prices have expanded the population of potential software buyers—but those buyers resist steep software prices. Spreadsheets used to cost \$500 and database packages \$800. Now, with heavily equipped desktop computers selling for \$1,500, customers don't see why a few diskettes should cost \$500. As a result, many software packages today retail for \$100 to \$150. Microsoft is selling Access, its Windows database program, for \$99.

It is possible to make money selling software for \$50 to \$100. But not if your business plan is geared to last year's far higher prices.

Software stocks crashed as these new realities became clear to investors. Software company net profit margins that were once 20% to 25% have been hacked down to a fifth of their former levels. One analyst expects Borland to report a loss for the year ending in March, and to creep up to a 5.5% net margin for the next fiscal year. The company has announced layoffs and it would not be surprising to see more.

But all this bad news was amply discounted by the stock market last year. The shares have bottomed or (in Borland's case) are testing the bottom now. The computer business is always in a state of tumult, and it is never clear from today's numbers what tomorrow's will look like. Analysts are now confidently predicting a dead flat future for packaged-software companies other than Microsoft. Maybe they are wrong.

Last year Lotus, Borland and Sy-

mantec all introduced excellent products or new versions of old products. Reviewers rave about Borland's Quattro spreadsheet program for Windows. Lotus' Ami Pro may be the most powerful word processor now on the market. Symantec's newest version of Norton Desktop solves some of the problems with Microsoft's Windows itself.

Two things characterize the latest generation of software. First, it is cheap. Second, it is easy to use. This is the ultimate effect of Windows: simple, standardized programs with all the control buttons in plain sight. You can learn to use Ami Pro, the Lotus word processing program for Windows, in about a day. Put the manual in a drawer as a first step. There are no required control codes, no deeply nested menus, no command words. This friendliness greatly expands and sharply changes the marketplace.

Software has long been sold not as a product but as a culture. A software package builds a customer base among people who have had to take the time and trouble to learn how to use it. This brand loyalty, or market captivity, seems likely to end soon, as a direct consequence of Windows. When all programs are as push-button easy as Ami Pro for Windows, there will be little reason, other than price, to choose one such product over another. Software training programs, past experience with a particular brand, the quality of customer support and similar issues affecting software purchase decisions will matter less and less to big corporate purchasers. Nor will they matter much any more to retail consumers, who will buy on price and packaging.

This hints that Microsoft may not, after all, create a strong monopoly with Windows. What Bill Gates may be inadvertently creating instead is a software bazaar—a commodity market for all packaged software. The software companies that have suffered most to date from the transition to Windows are perhaps best positioned to understand and exploit this emerging situation. Of the three stocks discussed here I have been buying Lotus Development for customer accounts at prices near \$20. It seems the most attractive gamble on the trend to easy-to-use software. ■



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Leasing a car isn't for everyone. If you think it's for you, make sure to understand all the fine print. Otherwise, you'll probably end up paying a lot more than those enticing rates in the advertisements.

The true costs of leasing

By Brigid McMenamin

THE NUMBERS are hard to resist. Lease a 1993 Cadillac Eldorado for 36 months for only \$499 a month. Or, if you're into luxury imports, there's a BMW 525i lease deal for \$531 a month or an Audi 100S for \$399 a month. Drive away a Jeep Cherokee for \$189 a month or a Toyota Corolla for \$120. Given such affordability, it's small wonder that last year nearly 25% of all new cars—including more than half of all luxury cars—driven away by consumers were leased, according to Arthur Spinella of CNW Marketing/Research.

But forget the advertised rates. The true costs of leasing are often much higher.

Read the fine print of those ads carefully, and you'll come across

something called “capitalized cost reduction.” This is a nonrefundable, upfront payment that covers part of the car’s depreciation during the term of the lease. This fee makes the true cost of leasing much higher than the come-on rates. On a 1993 Mazda 929, for example, one advertised monthly cost is only \$349 on a four-year lease. But in the footnote you’ll see a suggested capitalized cost reduction fee of \$3,633—that’s an extra \$76 a month even before factoring in the time value of the fee.

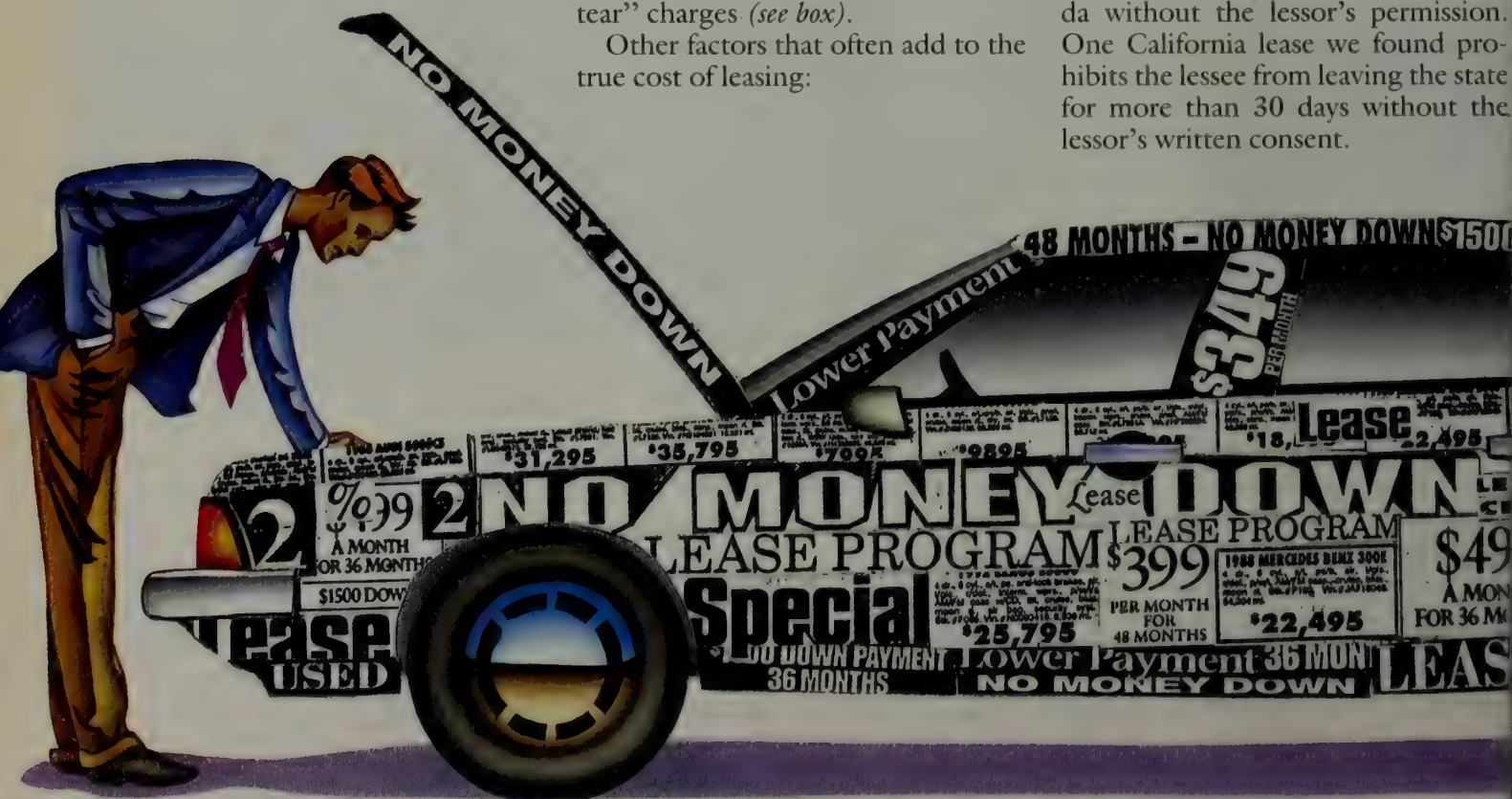
The amount of the capitalized cost reduction varies from dealer to dealer and from deal to deal. And even if you don't pay a capitalized cost reduction up front, you may still wind up paying something in the end: The lessor could hit you up for excess "wear and tear" charges (*see box*).

Other factors that often add to the true cost of leasing:

■ **Early termination.** Let's say you want to turn the car in halfway through the leasing period. You could get hit with an early termination charge equal to 5 months of lease payments. On a 36-month lease, this penalty would in essence increase the leasing cost by nearly 30%. That's not all. Early terminations are also often subject to a disposition fee of, say, \$250 and sometimes assorted other charges. And if the leasing company can't sell the car at that time for its estimated residual value, you may have to make up that difference, too.

Not planning to terminate early? Don't be so sure. About half of all lessees do.

■ **Unusual restrictions.** Some leases forbid you to drive out of the country. You can't even spend the day in Canada without the lessor's permission. One California lease we found prohibits the lessee from leaving the state for more than 30 days without the lessor's written consent.



■ Extra mileage charges. You're generally limited to 15,000 miles a year. Anything over that will cost you about 10 to 15 cents on average per additional mile. If you figure \$1,500 for every additional 10,000 miles, the real cost of the lease could climb pretty sharply.

For people who want to own what they drive, now is also a great time to buy a car. If you're ready to buy on the spot, dealers will cut prices far below sticker level. Moreover, a buyer can borrow the cost of the car from his or her brokerage firm at around 8%.

Still, there are good arguments that favor leasing over owning. The most obvious one, of course, is that you don't have to tie up nearly as much money in a car as you would if you bought it. If you think you can make 20% on your capital, lease. Nor does a lessee have to finance the car—very important for small-business owners who don't want any additional credit pressure. Plus, if you use the car for business, it's more advantageous to account for a leased car (the payment is a pure expense) than one you own, as far as the IRS is concerned.

If you decide to lease, the time to start investigating is in late March, when some automakers will begin offering even more inducements. Here are tips to keep in mind:

■ Select a car with a proven record for holding its value. With a higher residual value, it will probably cost less to lease than will a less popular car of the same sticker price, according to Ashley Knapp, chief executive of AutoAdvisor Inc., a Seattle-based car

Beware wear and tear

IN NOVEMBER 1988 Alan Newborn drove out of the Potamkin dealership on New York's 55th Street in a brand-new silver-gray Lincoln Continental. His lease cost: \$681 a month for 36 months.

When the lease expired in 1991, Newborn, a senior vice president at the *Journal of Commerce* in New York, took the Lincoln back to Potamkin and leased another car. The Lincoln, he says, was in near mint condition when he turned it in. "My wife and I treat a car the way you would a child," he says.

Several months later Newborn got a bill from GE Capital Auto Lease for \$1,048 to cover "excess wear and tear." He called GE to contest the damages, but the car had already been sold. GE kept his security deposit of \$681, charged him a \$250 dispo-

sition fee and dunned him for another \$367.

That's when Newborn called the New York City Department of Consumer Affairs. He eventually settled with GE for \$200.

Newborn could have avoided the unpleasant affair if he'd had the Lincoln inspected by a GE Leasing appraiser when he turned the car in. GE says it notifies customers of that option before the lease expires. Newborn doesn't recall any such notice.

Moral: Before you sign the lease, make sure it states clearly that you can be present during the lease-end inspection. If you have a beef, contest it then, or get an independent inspection. You can also have any needed repairs made yourself—probably a lot cheaper than the leasing company will charge.

—B.McM. ■

buying service that specializes in leasing. Currently, the Lexus SC-400, the Infiniti Q45, Mercedes 500SL, Range Rover County and Acura Legend are strong resellers.

■ If you're torn among several different makes, check to see if any of the manufacturers are offering special leasing incentives to dealers to move the metal faster. According to Randall McCathren of Bank Lease Consultants Inc., one benefit to consumers is that the monthly lease rate is based on a fixed capitalized cost.

■ Consider "gap" protection. Some experts think it's a rip-off, but gap insurance protects you from extra leasing charges in case you have to terminate a lease early because the car is stolen or wrecked. The cost of this coverage is sometimes included in the monthly payments.

■ Shop several dealers, and don't mention you're interested in leasing until you've negotiated a final price. Your monthly lease charge is predicated on the car's sale price. Knock it down, and you can knock down your

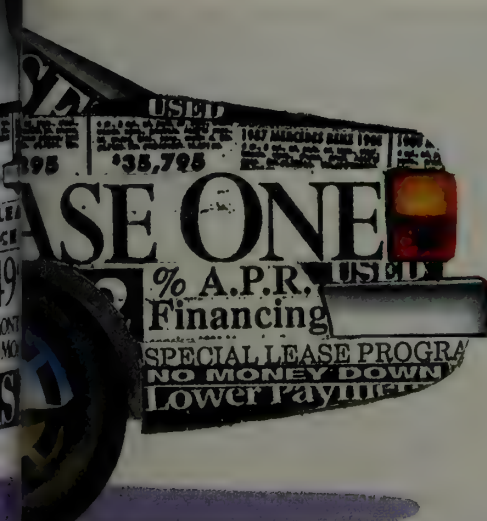
monthly payments. And remember: Just about everything is negotiable.

■ Make sure that the dealer's estimate of the residual value at the end of the lease period is reasonable. You will run less risk of inflated wear-and-tear charges, which can be somewhat arbitrary, when you turn in the car. How can you tell? Look at the *Automotive Lease Guide—New Vehicle Edition* or the *ALG Residual Percentage Guide*, each published six times a year by First National Lease Systems (annual subscription: \$42 each. Telephone 805-965-1403).

For general leasing questions, call the Ford Leasing Publications Center for brochures at 1-800-421-0494.

■ Option to buy. About 25% of lessees wind up buying their cars, so it's a good idea to make sure that option is specified in the lease contract. The contract should specify a figure for the "estimated residual value" or the "book price" of the car at the end of the lease. "Fair market value" sounds good but is too vague when it comes time to buy the car. ■

Josie Yee



Will 1993 be another great year for bank stocks? A couple of savvy analysts think it will be for a good many.

Restated assets

By Dyan Machan

OVER THE PAST two years bank stocks, as a group, have doubled. Have they had their run? No, according to a new analytical model developed by Michael Mayo and Brent Erensel of New York-based UBS Securities. Says Erensel: "We are pointing out that there are [bank] assets that may have been overlooked."

Erensel and Mayo note the market often decides whether bank stocks are cheap or dear by looking at their price as a multiple of book value. On that basis, major banks are trading these days at an average multiple of 1.3 times book value; for regionals, it's an average 1.7 times. Those multiples are high by historical standards.

But hold on, say the analysts. Stated book value doesn't tell the whole story. Banks have large unrealized securities gains, tax benefits and loan-loss reserves not reflected in book value. There are also qualitative factors that don't show up as book value. How strong is the regional economy? Is the bank dominant or lagging in market share? Is management strong?



The analysts take First Interstate Bancorp as an example. Recent NYSE price: 46, or 1.34 times stated book. This book value, explain Mayo and Erensel, doesn't take into account over \$400 million in unrealized tax benefits. Their model does. Result: a 16% increase in First Interstate's equity. And the bank has an unusually strong retail network that gives it a good, steady source of low-cost funds. The analysts figure this is worth about \$1 billion. They add another \$230 million for unrealized securities gains, \$193 million for generous loan-loss reserves and \$284 million for the bank's lucrative trust business.

To get an accurate picture of the bank's real value, Mayo and Erensel also subtract from book value certain negatives, such as goodwill. Even so, this leaves First Interstate trading at 71% of Mayo and Erensel's adjusted book value of \$64.88, which they say makes the stock a buy.

Another buy? First Chicago Corp. Recent NYSE price: 36⅞, a bit above stated book value. Mayo and Erensel

recalculate the adjusted book to be \$39.99. First Chicago, they note, has a \$3.3 billion credit card portfolio. When acquired, credit card businesses often sell for a 10% premium over their face value. So, after adjusting for the bank's credit card value already stated on the balance sheet, the analysts have boosted First Chicago's book by \$186 million.

Mayo and Erensel pay particular attention to a bank's premium lines of business—such as credit cards or mortgage and trust departments. A good trust business, say the analysts, has high profit margins and is recession-resistant. That's largely why they like Bank of Boston. Recent NYSE price: 24¼, or 118% of stated book. Thanks to its \$11 billion trust business, Mayo and Erensel have added \$257 million to book. Bank of Boston gets another lift from \$145 million in unrealized tax benefits. Restating book value by their standards, Mayo and Erensel assign Bank of Boston a book value of \$28.84 a share, \$4.59 above its recent market price.

Mayo and Erensel's adjustments don't always make banks look attractive. They certainly don't for Citicorp. At a recent 21¼, Citicorp trades just under its book value of \$21.70. But adding positives and subtracting negatives, Mayo and Erensel refigure Citicorp's book value at \$13.76 a share, well under the recent market price. They penalize Citicorp for what they consider grossly inadequate loan-loss reserves. Unlike the other banks listed on the table, Citicorp, according to these analysts, is a no-buy recommendation.

Banks in a different light

Bank	Recent price	Book value per share	Adjusted book value per share	Adjustments to common equity (per share)							
				balance sheet related					line of business		
				goodwill	core deposits	loan-loss reserves	securities	tax benefits	credit cards	mortgage	trust
Bank of Boston	24¼	\$20.52	\$28.84	\$-1.37	\$5.71	\$-1.57	\$0.87	\$1.72	\$0.00	\$-0.08	\$3.04
Barnett Banks	41	28.32	37.14	-2.76	10.07	-4.55	1.42	0.00	1.32	1.98	1.34
Chemical Banking	37%	31.67	34.30	-2.81	7.03	-11.45	1.91	2.79	2.02	0.73	2.41
Citicorp	21¼	21.70	13.76	-1.41	3.95	-21.35	1.21	3.83	2.51	1.72	1.60
First Bank System	27%	16.10	26.45	-1.53	4.49	1.11	0.41	1.80	1.09	0.46	2.52
First Chicago	36⅞	32.85	39.99	-1.49	4.83	-3.16	0.00	0.00	2.33	0.39	4.24
First Empire State	134%	83.46	134.11	0.00	29.95	7.09	4.21	0.00	1.82	3.04	4.54
First Interstate	46	34.44	64.88	-3.08	15.97	2.60	3.10	5.60	1.47	0.94	3.84
Mellon Bank	51%	35.64	52.35	-3.80	7.77	-1.50	2.15	0.52	1.30	1.45	8.82

All balance sheet data as of 9/30/92, except core deposits, which are as of 6/30. To avoid double counting, core deposit, credit card and mortgage adjustments exclude related intangible assets recorded on the balance sheet. Amounts do not reflect subjective adjustments for market share, management, etc.

Source: UBS Securities, a division of Union Bank of Switzerland.

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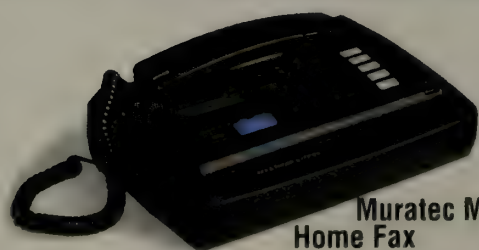
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Porsche turns

"WE MADE one long mistake in the past," says Wendelin Wiedeking, the new chief executive of Porsche AG, the German sports car maker. "We solved everything by raising prices."

Last year the jig was up. High prices (\$40,000 to \$100,000 in the U.S.), recessions in major markets and tough competition from Japan brought on the company's first loss in 20 years. In 1986 Porsche sold about 50,000 cars; last year the sales figure was 23,000.

Last fall the board cashiered the former top manager and brought in Wiedeking.

A German version of Jimmy Stewart, full of earnestness and enthusiasm, Wiedeking, 40, is an engineer and expert on manufacturing. He joined Porsche in 1983, then headed Glyco Metallwerke, another manufacturing company, until his return to Porsche.

Wiedeking's goal is to cut costs 30% over three years and then keep cutting. Coming along middecade will be a new Porsche: a two-seater, similar to the Boxster show car, which is a dazzling two-seater with an all-new shape. Wiedeking vows the car will be priced under \$40,000.

Rumors abound that Porsche may be sold, but the automaker is controlled by Germany's billionaire Porsche family, as well as the Piech

family. "The families can handle it [any loss], and Porsche will stay independent and recover," Wiedeking says. Any doubt as to who's in charge of the recovery? None. "I am the boss," says Wiedeking. —JERRY FLINT

Going for the green

RICHARD DARMAN, the outgoing director of the Office of Management & Budget, may have suggested a good place for his successor to start cutting government jobs: OMB's economic forecasting staff. To blunt charges of political bias in his newest budget, Darman turned for the first time to an outsider to forecast economic growth.

The outsider? Robert Eggert, the 79-year-old founder and editor of *Blue Chip Economic Indicators*. "I'm very pleased that my consensus [forecast] numbers are so useful," says Eggert, modestly.

Based in Sedona, Ariz., Eggert each month asks 52 business and academic economists to share their predictions

of such key statistics as economic growth, inflation and unemployment. He then strikes averages of the soothsayers' responses; these averages become Eggert's *Blue Chip* consensus forecast.

While the consensus predictions don't always pan out (Eggert's sources failed to predict the 1982 recession), Eggert claims he has a pretty good long-term record of predicting overall economic growth rates. Around 1,500 subscribers pay \$498 a year for Eggert's *Blue Chip* newsletter.

What's ahead during Clinton's first term? Eggert, who produced his first consensus forecast for Robert McNamara in 1956 while working as an economist and marketer at Ford, is fairly upbeat. His newsletter's logo is color-coded. Right now it's yellow, indicating slow growth. But with the *Blue Chip* consensus growth forecast now at 2.9%, Eggert predicts the logo will turn green—meaning growth over 3%—this summer.

—MANJEET KRIPALANI

RIGHT:
Robert Eggert,
editor of *Blue Chip*
Economic Indicators
**His letter's
yellow logo may
soon turn green.**



LEFT:
Porsche AG's chief
executive, Wendelin
Wiedeking
**The new Porsche
will come in
under \$40,000.**



Barth Falkenberg



North American
Aeroflot's
Ralph Frasca and
David Siegfried
**The U.S. Postal
Service passed.
The Russians
played.**

Tommy Hilfiger
Corp.'s
Tommy Hilfiger
**Stock worth
\$50 million,
and lots of bitchy
competitors.**

Designing earnings

TOMMY HILFIGER, one of Seventh Avenue's hottest young menswear stars, calls himself a "designer dash businessman," but many competitors dismiss him as nothing more than a brash merchandiser whose sportswear designs fall somewhere between the Gap and Ralph Lauren. Hilfiger, they hiss, never even went to design school. Imagine!

Sour grapes? You bet. Hilfiger, 41, took his Tommy Hilfiger Corp. public on the New York Stock Exchange at \$15 a share last fall. Since then the stock has climbed to 25, twenty-two times this year's anticipated earnings. That puts Hilfiger's 13% stake at \$50 million. And as the firm's head designer and vice chairman, he also draws a \$900,000-a-year salary, plus 1.5% of all sales above \$48 million. Last year the company's revenues reached \$107 million.

Hilfiger's education was superior to that provided by any design school. In high school he hawked bell-bottoms from the trunk of his car in Elmira, N.Y. That led to a string of People's Place clothing shops on college campuses across New York State,

where he began designing jeans and jackets for some of his suppliers. "Being able to make money just for giving ideas to a company seemed incredible," he recalls.

In 1979 Hilfiger sold his shops and moved to Manhattan to pursue designing full time. After teaming up with Mohan Murjani, who launched Gloria Vanderbilt jeans, Hilfiger attracted new investors in 1989. Not a shy chap, Hilfiger leased a Times Square billboard and proclaimed himself one of America's top four menswear designers.

So Fashion Avenue gossips have some grist for their hissing campaign. But Hilfiger has something better. "We know how to ring the register," he says.

—CAROL M. CROPPER

The Russians are coming

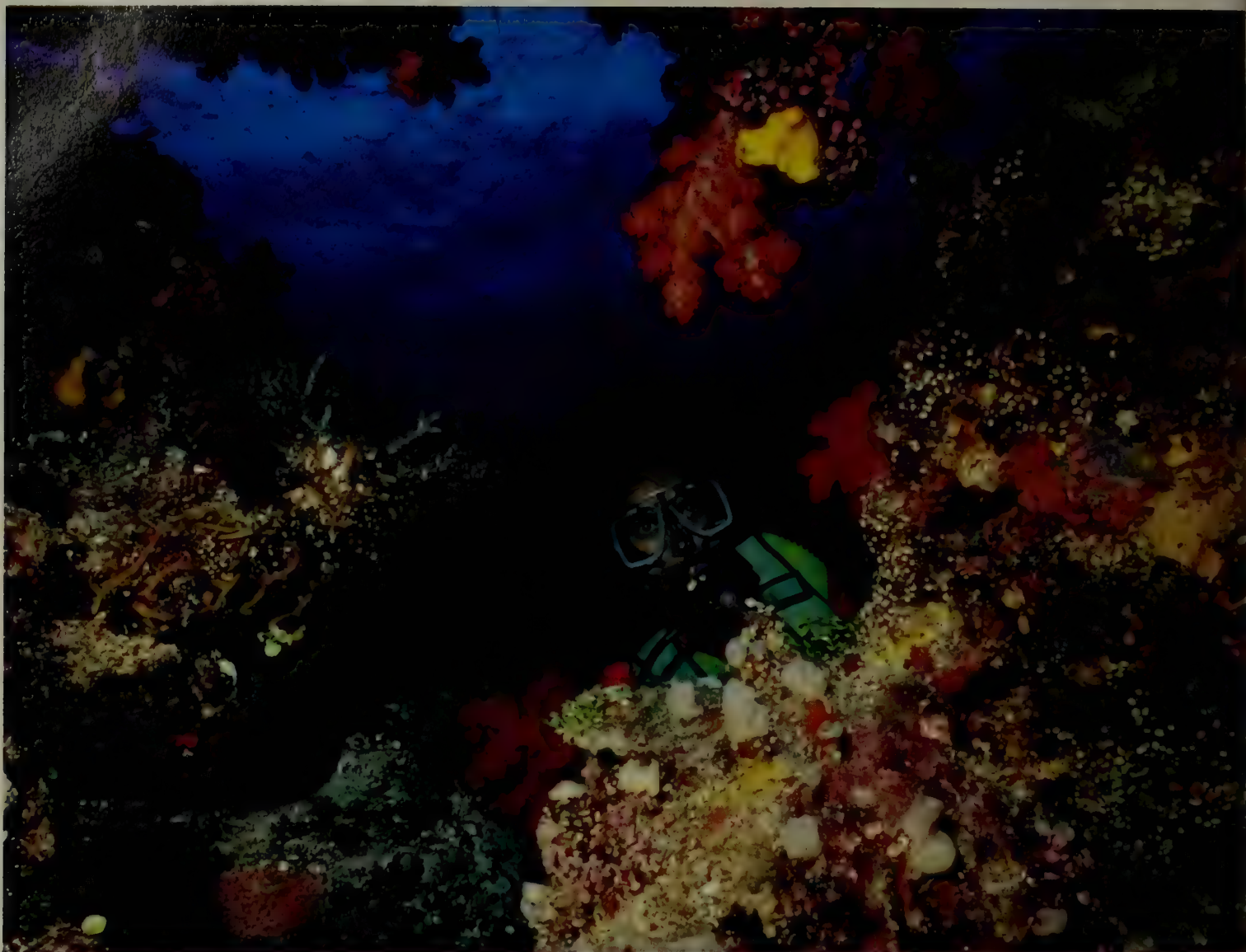
IN OCTOBER 1991 the *Columbus Dispatch* reported that Rickenbacker Airport, a former Strategic Air Command base on the south side of Columbus, Ohio, had lost its bid to become a U.S. Postal Service hub. On the same page was a story about Aeroflot, which said the Russian airline was desperate for hard currency. "It

seemed so obvious," says local businessman Ralph Frasca, who read both stories. "I thought if we failed to get the U.S. government, then let's get the Russian government."

Frasca, 45, met with the airport's officials and found a Russian trading company to introduce him to Aeroflot's managers. Early last year he hammered out an agreement to start North American Aeroflot, which plans to begin regularly scheduled cargo flights out of Rickenbacker field in April. In exchange for supplying planes, crew and maintenance, Aeroflot gets 80% ownership in North American Aeroflot, a U.S. corporation that will manage and market the cargo business. Frasca, NAA's U.S. managers and a handful of Ohio firms that helped finance the startup will get the rest.

To run the operation, Frasca hired David Siegfried, former president of Burlington Airline Express. Siegfried's current plans call for four Aeroflot Il-76 freighters—each about the size of a C141 cargo transport—to fly out of Columbus each week. They will stop in Luxembourg, Moscow and Khabarovsk, in eastern Russia, then cross the Pacific to return to Ohio. Regional carriers will feed cargo into and out of each of the four hubs. Miami-based Arrow Air expects to save a full transport day using the Rickenbacker facilities to ship produce, seafood and pharmaceuticals from South America and the Caribbean to Europe via NAA's Columbus-Luxembourg-Moscow legs.

A fellow who enjoys life's ironies, Frasca says: "We spent billions to keep the Russians away from Rickenbacker; now the Russians talk about how they're bringing jobs to the Rust Belt—they still have a well-oiled propaganda machine in place."



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The stock market's inauspicious start in 1993 should not by itself give investors with a historical perspective much cause for worry. Many strong markets begin with a whimper and end with a bang. In 1991 the Dow Industrials lost 150 points through mid-January but ended the year with a 10% gain. In 1982 the Dow was down 10% through early August before it rallied and finished the year up 20%. Mary Farrell of PaineWebber finds the overall stock market fairly valued but is nevertheless looking for an 8%-10% gain this year. Her picks focus on firms in industries likely to grow faster than the overall economy. One such sector, according to Farrell, is telecommunications. She likes AT&T, for its potential outside the U.S. and its dominance in the domestic long-distance business. (See cover story.) Farrell also favors Mexico's TelMex, which she believes will grow rapidly as Mexico's economy expands.

Special focus

The table below lists the ten stock funds with the greatest percentage increase in net assets (excluding performance gains and reinvested dividends) in 1992. Note that four of the funds with the highest inflows during 1992 are sector funds, an indication that investors will give up diversification to chase a good record.

What investors bought

Fund	1992 net purchases
Fidelity Select-S&L	207%
Fidelity Value Fund	59
Skyline Fund-Spec Equities	49
Fidelity Low-Priced Stock	46
Strong Common Stock Fund	29
Pioneer Cap Growth	28
Fidelity Select-Regional Banks	25
Fidelity Stock Selector	24
Financial Strategic-Tech	22
Fidelity Select-Const/Housing	21

Source: AMG Data Services, Arcata, Calif.

The overall market



Closeup on the market

Index or investment	2-week change	1 year ago	5-year high
Barra All-US index	-1.1%	3.5%	-1.2%
S&P/Barra Growth index ¹	-3.2	2.1	-3.7
S&P/Barra Value index ²	-0.7	10.3	-0.9
Dow Jones industrials	-1.7	1.9	-4.2
S&P 500	-2.1	3.1	-2.4
NYSE	-1.6	3.1	-2.0
Nasdaq	1.9	9.4	-0.5
Amex	0.7	-2.6	-5.2
EAFE ³	-2.5	-15.9	-29.3
CRB futures index ^{4,5}	-0.8	-3.0	-25.7
Gold ⁵	-1.3	-7.8	-34.6
Yen ⁵ (per \$U.S.)	1.0	1.0	-23.7
Oil ⁵	-4.8	6.2	-53.9

The best and worst performing stocks⁶

Best	Price	2-week change	1993 EPS ⁷	Worst	Price	2-week change	1993 EPS ⁷
IIS Intelligent Info	63 1/4	37%	NA	Nature's Bounty	14 1/2	-38%	NA
Pyramid Technology	13 1/2	37	\$0.48	TSI	4 1/8	-37	\$0.09
First Pacific Network	14 7/8	35	NA	FileNet	13 3/4	-32	1.12
Williams-Sonoma	14	30	0.72	Hauser Chem Research	21 1/2	-24	1.28
Fleet Call	22 5/8	29	-1.04	Intl Murex Technologies	6 7/8	-21	0.30

The best and worst performing industry factors^{8,9}

Best	2-week change	Since 12/31/92	Worst	2-week change	Since 12/31/92
Motor vehicles	5.0%	5.9%	Cosmetics	-9.4%	-8.9%
Electronics	4.9	5.7	Health care	-6.3	-6.7
Forest products	4.6	1.7	Tobacco	-6.0	-8.0
Photographic, optical	4.2	5.2	Pharmaceuticals	-5.3	-5.1
Misc mining, metals	2.2	1.3	Gas utilities	-4.2	-2.7

Note: Data for period ending 1/7/93. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. ¹ Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. ² Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³ A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴ Index of 21 commodity futures. ⁵ Knight-Ridder Financial Information. ⁶ During the last two weeks. ⁷ Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. ⁸ Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

NEW ISSUES REVIEW

BY SCOTT DeCARLO

The biggest new issues¹

Company/business	Exchange	Offer date	Offer price	12/31/92 price	Offering (\$mil)	Lead underwriter	Performance to date absolute	rel to mkt ²
First Colony Corp/insurance	n	12/8/92	28	34 1/8	\$241	First Boston	22%	122
Life Re/reinsurance	n	10/27/92	22	28 7/8	233	Salomon Brothers	31	126
Minerals Technologies/specialty chems & svcs	n	10/23/92	16	21 3/4	208	Lazard Freres	36	129
CompuWare/software retailer	o	12/16/92	22	25 3/4	180	Morgan Stanley	17	116
CMAC Investment/mortgage insurance	n	10/30/92	18	26 1/4	174	Lehman Brothers	46	140
Hayes Wheels Intl/automotive wheels	n	12/16/92	19	20	156	Smith Barney	5	104
Purolator Prods/automotive filters	o	12/14/92	15	16	150	Lehman Brothers	7	106
Caraustar Inds/recycles paper prods	o	10/1/92	15	18 3/4	145	Goldman, Sachs	25	119
Breed Technologies/sensors for airbag sys	n	11/12/92	17	16 7/8	131	Goldman, Sachs	-1	96
Maybelline/perfumes & cosmetics	n	12/10/92	23 1/2	30 5/8	109	Merrill Lynch	30	130

Performance update

Despite a summer slowdown, 1992 was a record year for new stock offerings. In total, a record \$20.3 billion in capital was raised, 37% more than the \$14.8 billion raised in 1991. In the fourth quarter of 1992 there were 105 newly public companies, which auctioned off \$4 billion of stock.

The new issues market is off to another fast start this year. According to Securities Data Co., there are already 80 stocks in registration at the Securities & Exchange Commission and another 40 are expected to register in February. But Michael DiCarlo, portfolio manager of the John Hancock Special Equities Fund, figures the market will soon begin to choke on itself. "Early in the underwriting cycle, you get the quality companies first," he reminds. "Further down the cycle, the companies get worse."

The best-performing new issue last quarter was Casino Magic, which went public in October and had posted a 360% gain by year-end. Casino Magic was a \$19 million offering from little-known Summit Investment. For all of 1992, Lone Star Steakhouse & Saloon, which went public in March, had the best gain, 457%.

Goldman, Sachs was again the top underwriter. It raised \$3.8 billion in new capital, 40% more than the \$2.7 billion it raised in 1991.

The best new issues¹

Company/business	Offer price	Offering (\$mil)	Lead underwriter	Performance to date absolute	rel to mkt ²
Casino Magic/operates casinos	5	\$19	Summit Investment	360%	437
NetWorth/networking equip	16	18	Robertson Stephens	136	232
Physicians Clinical Lab/clinical lab svcs	8	12	Smith Barney	113	202
Platinum Software/finl mgmt software	14	35	Hambrecht & Quist	110	200
Hungarian Tel & Cable/phone & cable svcs	7	6	JW Barclay	107	209

The worst new issues¹

Company/business	Offer price	Offering (\$mil)	Lead underwriter	Performance to date absolute	rel to mkt ²
DiversiFax/self-service fax machines	5	\$5	RF Lafferty	-45%	53
Sport Chalet/sporting goods stores	9 1/4	15	Wedbush Morgan	-14	84
Health Image Media/health magazine	6	7	DH Blair	-10	85
Trident Microsys/graphic chips & cards	17	51	Alex Brown & Sons	-10	89
Sellecktek/electric equip	4	5	Dakin Secs	-9	90

The most active investment bankers³

Industries going public³

Underwriter	Total offerings	Total raised (\$mil)	Industry	Total offerings	Total raised (\$mil)
Goldman, Sachs	25	\$3,769	Manufacturing	186	\$8,305
Lehman Brothers	29	2,325	Services	55	2,442
Morgan Stanley	24	2,096	Retail	43	1,842
Merrill Lynch	21	1,728	Insurance	19	1,839
First Boston	22	1,413	Health care	29	1,191

Note: This report covers initial public offerings of common equities with offer date of 10/1/92 to 12/31/92, offering price of \$2.50 or more and offering value of \$5 million or more. Closed-end funds, limited partnerships, and ADRs (American Depositary Receipts) of corporations already traded in foreign countries are excluded, as are REITs and spinoffs. ¹Last quarter. ²The ending value of \$100 invested in the stock, divided by the ending value of \$1 invested in the market. ³Latest 12 months. Source: Securities Data Co.

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NEWS YOU CAN USE

Some people pick stocks on financial criteria and some on volcanic eruptions. Neal Miller at Fidelity's New Millennium Fund has had good luck with volcanoes.

The Ouija fund

By Mary Beth Grover

WITH AT LEAST 4,000 mutual funds out there, it's getting tougher and tougher to come up with the kind of unique selling proposition that will get people's attention. Tough but not impossible. In late December Fidelity floated the New Millennium Fund, which buys stocks based on forecasts of trends in demographics, social attitudes and climate. A kind of new-age approach to the stock market.

New Millennium's manager, Neal Miller, chooses investments by pondering such events as volcanic eruptions, the alienation of city-dwellers and the changing technology of refrigeration. "I try to be tomorrow's newspaper today, to discover the investment implications of change before Wall Street does," says Miller.

Does Miller's approach work? There's some favorable evidence. From 1985 to 1988, running Chase Manhattan's Medium Capitalization Growth Equity trust fund, he returned 19% a year, versus 17.7% for the Standard & Poor's 500.

In June 1990 he took over Fidelity's Aggressive Equity Discipline trust fund from another noted trend-spotter, Peter Lynch. Through the end of 1992, Aggressive Equity under Miller racked up 15.7% a year, against 11% for the S&P 500.

Miller is no value investor. He pays little attention to multiples of earnings or book value. "I'm inferential, not linear," he shrugs. Meaning he's betting not on current earnings but on his predictions of future earnings. His portfolio is priced at an average of 25 times trailing earnings—versus 23 for the overall market—and 6 of his top 20 holdings are priced at or over 40 times earnings.

Miller, 50, doesn't spend a lot of

time studying past records of companies. Instead, he concentrates on combing through trade journals ranging from *Wheeling and Transmission Monthly* to *Gypsy Moth News* and *Shotgun News*. He also spends time checking out trade shows. This wide-ranging approach to investing fits the Rochester, N.Y. native's hyper personality.

Miller got his taste for "inferential"



rather than "linear" research in 1959, when he made a small bundle for his high school treasury by buying shares of what is now Xerox. No amount of studying earnings records or balance sheets would have suggested to him that Xerox would soon explode onto the national scene with its xerography. At Carleton College in Northfield, Minn. he studied psychology along with economics.

Miller picks the brains of trendmeister James Williams of Williams Inference Service in Longmeadow, Mass. In 1990 Williams mused about the growing flight from America's cities. Making due inference from that, Miller figured that urban refu-

gees would be donning the country look. So, later that year, Miller had Aggressive Equity Discipline load up on cowboy boot manufacturer Justin Industries and western-style jeans maker VF Corp. Justin and VF have both more than doubled since then.

In 1991 Miller read in *Air Conditioning, Heating and Refrigeration News* that the industry was in a tizzy over the regulatory phaseout of Freon, the refrigerant that supposedly damages the ozone layer. So last spring he bought Manitowoc, which uses a Freon substitute in its ice machines, and Appliance Recycling Centers of America, which taps Freon from old refrigerators.

Miller thinks automatic teller machines will eventually spew out everything from stamps to theater tickets. So he is buying Diebold, the industry leader, on the bet that existing teller machines will have to be upgraded.

Miller's demographic reading tells him that the number of high school graduates is rising just as opportunities in the military are shrinking. So he likes DeVry Inc., a for-profit vocational school chain.

When Mount Pinatubo in the Philippines erupted in June 1991, Miller figured the dust from the volcano would dim the sun, cool the planet and increase rainfall. That, he reasoned, would make lawns grow like weeds, so he loaded up on Toro, the lawnmower producer, and Barefoot Inc., a lawn-care firm. He's had better than 50% gains in each.

Miller's new-age approach to managing money doesn't come cheap. Investors pay a 3% upfront load and a 1.4% expense ratio to sit at New Millennium's Ouija board.

Is it worth it? Miller's performance record at Fidelity is too short to make a good judgment. But we can say this from observations of other hunch players who pick trendy stocks and downplay fundamentals: These guys often beat the averages in bull markets—which may account for a good part of Miller's superior performance—but they tend to underperform in bear markets. So a fund like this could certainly be volatile, but if you want to place a bet on one man's ability to figure the future, it's worth a tumble.

Twenty years ago David Schafer loved the Nifty Fifty stocks that Wall Street figured would grow forever. These days he likes the stocks that Wall Street hates.

Reformed sinner

HERE'S NO MORE zealous believer and a convert. That's why David Schafer is a believer in low-P/E investing. Long ago he favored stocks trading at giant multiples of their earnings. Now he's a fanatic for low earnings multiples.

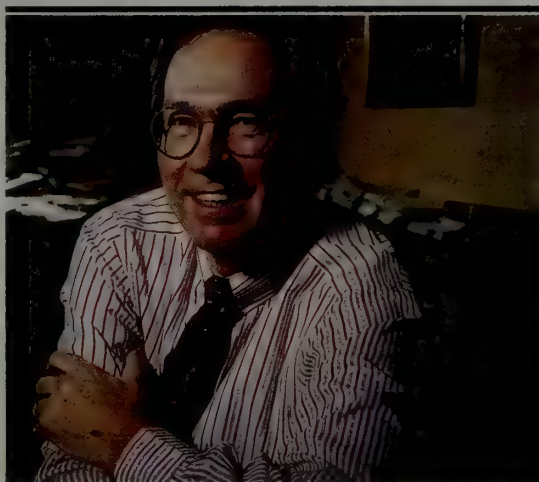
Aged 52, Schafer has been around Wall Street since 1966. In late 1972 he left his job as an analyst to oversee International Nickel's pension fund. At the mass hypnosis then gripping Wall Street, the average multiple in the Nifty Fifty list of glamour stocks (Avon, Polaroid, 3M and the like) topped 55. Schafer had the itch in the worst way. He recalls with a smile that his favorite was Avon Products—then priced around 140, or 65 times earnings. His stock price would soon drop below 20.

Unlike a lot of other Nifty Fifty types, however, Schafer didn't get washed away in the debacle. His first job at Inco was to prepare an exhaustive report justifying why management of part of the pension fund should be moved in-house. It took Schafer over a year, during which he did no buying or selling. By late 1974, when Inco finally turned its pension fund over to Schafer to manage, the bear market was over. Says he: "After that, I didn't know how I was going to manage money, but I knew how I wasn't going to."

Schafer began by buying only stocks selling at lower multiples of earnings than the S&P 500. To that value angle he added a vestige of growth: He would buy only stocks that he thought could increase their earnings faster than the overall market over the next few years.

With 1973-74 burned in his memory, Schafer has never since bought a stock with a P/E bigger than a shoe

size. And he has left big footprints: At Inco, he stomped out an average annual return of 20% from 1975 to 1981, outracing the S&P by 4 points. He left Inco in 1981 to start his own investment firm. His closed-end Schafer Value Trust was beating the market smartly when arbitragers, lured by the fund's discount to net asset value, forced Schafer to liquidate it in 1990. And his open-end, no-load Schafer Value Fund returned 19% last



Schafer Value Fund's David Schafer
Once burned, twice shy.

year—better than double the market's return. The fund, with only \$14 million in assets, is just a showcase for Schafer's two investment firms, which handle \$725 million in pension and private accounts.

Value stocks, Schafer's present religion, are usually defined as those fetching lower price/earnings and price/book multiples than the market as a whole. Value seems to be back in style these days: After several years of losing out to growth, value stocks outperformed the higher-multiple growth stocks by a wide margin last year, according to indexes kept by Frank Russell Co.

But, as Schafer well knows, the market tends to have alternating flings with growth and value. So his harmony of value and growth could be a nice hedge. He paid less than ten times earnings on average for the stocks in his fund, but he expects their earnings to grow at least 15% over the next three to five years. Other rules of his: He commits no more than 3% of the portfolio to any single stock, no more than 20% to a single industry, and rarely more than 3% to cash. When a stock's P/E rises as high as the market's (recently 16.5, the way Schafer calculates it), he dumps the stock. Thus he sold oil giant Atlantic Richfield and UJB Financial, the New Jersey bank, last year when their P/Es edged up.

Lately Schafer's biggest sector has been defense and aerospace, led by Northrop Corp., the defense contractor. "The smart operators in this business will come out okay," asserts Schafer.

Schafer tanked up on Progressive Corp., the Cleveland-based auto insurer, and Old Republic International, the liability and workers' compensation outfit, in 1989 and 1990. They were cheap because junk-bond jitters and California's Proposition 103 to restrict premiums were pummeling insurance stocks. He bought Old Republic at about 5 times earnings; he had to pay about 8 times for Progressive. Progressive is now selling for 21 times trailing earnings; that has left Schafer with an impressive 190% gain in the stock.

Lately he's been buying Fleet Mortgage, the loan servicing outfit spun out of New England banking giant Fleet Financial. Another recent favorite: Ultramar Corp., the Tarrytown, N.Y.-based oil refiner, which Schafer started buying in December at seven to eight times earnings. When one of Ultramar's tankers ran aground off the Scottish coast in early January, the stock dropped nearly two points, to about 17. Schafer promptly bought more.

Schafer owns GM: "Car people, not financial people, are in charge again, and I like the new products." But IBM makes him shudder: "I think it has a lot further to go in resurrecting itself."

—J.Z. ■

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Mata Hari, 1907

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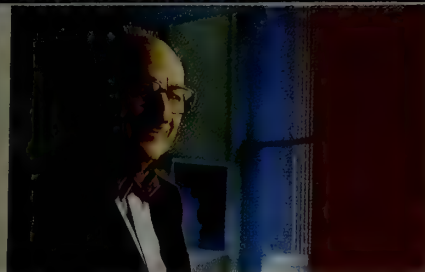


Wednesdays, 9:30pm eastern time

lot of advisers say you should diversify your holdings between stocks and bonds. But experience says this advice is wrong.

Who needs bonds?

BY PETER L. BERNSTEIN



Peter L. Bernstein is president of Peter L. Bernstein, Inc. and was founding editor of *The Journal of Portfolio Management*.

MOST INVESTORS like to hold both bonds and stocks. The bonds give them a sense of stability and an attractive flow of income, while the stocks provide the fun and the promise of greater wealth in the future.

But does it really make sense to hold bonds in an investment portfolio? I think not, especially today.

The long-term record tells us that bonds have a lower expected total return (income plus capital growth) than stocks. Go back all the way to 1925. Over this period stocks yielded a compound annual return of more than 10%, bonds a bit under 5%. Thus stocks did twice as well as bonds. Too long a period? From 1967 through 1982 the comparable figures are stocks, 12.3%; bonds, 4.9%. For the past ten years, too, bonds lagged: stocks, 17.6%; bonds, 13.8%.

Common sense explains these numbers. Over the long run, less risky assets cannot outperform riskier assets. If that was what people expected, investors would all pile into the less risky asset, driving up its price and lowering its expected return.

Neither have bonds provided

worthwhile diversification as they often move in the same direction as stocks. This was the case in 78 of the 111 calendar quarters since 1965—53 quarters when both had positive returns, and 25 when both had negative returns. Even in the quarters when both did well, stocks outperformed bonds more often than not.

Stock returns were negative in 39 of those 111 quarters. In only 14 of the 39 bearish quarters did bonds earn positive returns. As we can see, bonds were not a good hedge against weakness in stocks.

We know that bonds show inferior returns to stocks, and we also see that they aren't a very good hedge against declines in the stock market. So who needs bonds if stocks and bonds are usually moving up and down together? No one wants an asset that provides lower positive returns than an alternative asset.

But doesn't the lower risk of bonds compensate for their lower expected returns and their failure as diversification? I think not. The perception that bonds are less risky is insufficient justification for including them in a portfolio with stocks. There are better ways to hedge the risk in owning equities than by holding bonds. You can hold cash equivalents, which never have negative returns. You can hedge your risks in the markets for options and futures. You can use dynamic strategies, selling as the market goes down, buying as it goes back up.

It is not by accident that bond prices and stock prices so often move in the same direction. The primary linkage is in the critical role that the bond yield plays in setting the discount rate on future cash flows that drives stock valuations: Declining in-

terest rates push up bond prices, but they also push up stock prices. In other words, declining interest rates are good for both stocks and bonds. Conversely, rising interest rates are bad for both, so they tend to move together more often than not.

There is also another more subtle and little-noted influence at work: Bonds are contracts that pay the same income, year in and year out, until they mature. Stocks are claims on uncertain cash flows that investors buy because they expect higher dividend income in the future. Optimism or pessimism about dividend growth, therefore, and especially about dividend growth in excess of inflation, plays a critical role in the interaction of bond returns and stock returns. When investors are pessimistic about future dividends, stocks become more bond-like and tend to mimic bond behavior; the two move in unison. When investors are optimistic about dividend growth, stocks tend to outperform bonds because investors build the higher expectations into stock prices, but bond prices don't benefit from the changed expectations.

These forces explain why stocks and bonds went their separate ways during most of 1988-89, when year-over-year dividend growth on the S&P 500 ran in the neighborhood of 10%. Since early 1990 bond and stock returns have generally moved more closely together as dividend growth has shriveled to only a couple of percentage points per annum.

This analysis is highly relevant to the choices facing investors early in 1993. If business activity gains forward momentum, interest rates will probably rise and bonds will have low or negative returns. Does that spell disaster for the stock market? Not if the brightening horizon for the economy means that accelerated growth in profits and dividends breaks through at the same time. In any case, the historical odds are only 57 out of 100 that stocks will fall if interest rates rise.

My own expectations for profits are high, with dividend growth following along. As a result, I doubt that higher interest rates represent a major threat to the stock market now. Yet they may be a danger for bond prices. I see no reason to hold bonds at this time—either as a hedge or for capital gains.

Traders usually die poor, while hard-core buy-and-holders can get blindsided—as with IBM.

A buy-and-watch strategy

BY DAVID DREMAN



David Dremán is chairman of Dremán Value Management, L.P., Investment Counsel, New York, and author of *The New Contrarian Investment Strategy*.

TWO DRAMATICALLY opposite investment approaches have always been popular among investors. The first is to buy stocks and put them away, placing your faith in management's ability to make the business grow. The second way is trading, trying to catch the wiggles and waves in the stock charts.

The second, flipping stocks, has almost always lost money over time for the player and made money for his broker. But this doesn't mean that an unadulterated put-'em-away-and-forget-'em approach is the best way to go. IBM was the bluest of the blue chips, but anyone who held it over the past decade had a miserable experience. The same with General Motors. And Westinghouse. Yet these three were dominant in their markets and among the international leaders in size, financial strength and profitability.

IBM at its high-water mark made up 7% of the total market value of the S&P 500. So formidable did IBM appear that for over a decade the government trustbusters rigorously tried to split up the company, arguing that if this was not done it would monopolize

the computer industry. IBM paid legions of top lawyers hundreds of millions to keep the feds away.

The irony is that only a little more than a decade later the same company is coming up with a plan to split itself into a number of independent and, with any luck, profitable entities, while taking unprecedented charges to do so. Precisely what the feds wanted and what IBM would have fought to the death to prevent some years ago.

IBM is only the latest example of how dynamic change is the heart of our system and the catalyst for economic growth. The whale often flounders as smaller, innovative, quick-moving competitors continue to expand sales even through severe economic recession.

Okay, if trading is poison for most people and a lock-away strategy is dangerous, what works best? A modified buy-and-hold stance. Buy good-quality stocks when the price is right and hold them so long as their fundamentals don't deteriorate. Don't react to every uptick or downtick, but don't be complacent, either. You don't sell on every down quarter but you also don't go to sleep. If something as major as the PC comes along and you notice that IBM is losing control of the development, it's time to reconsider the wisdom of holding the stock.

What are the danger signs that the long-term investor should watch for?

■ In recent years one of the most critical has been the "one-time restructuring charge." If a company takes a large writeoff, it's a clear warning to watch carefully. The vaguer the reasons management gives for the charge or the details of the ensuing reorganization, the higher the state of

alert. If a "one-time charge" is followed by another major writeoff, the prudent course is to bail out.

■ Watch revenue, profitability, return on capital and market share. If they falter while the competition continues to move ahead, there is a good chance of trouble down the road.

■ Scrutinize management statement about areas of major concern to investors. If instead of discussing them in detail the company glosses over them the way GM, Westinghouse and IBM did for years, watch out.

■ Finally, another important warning light is a strong balance sheet deteriorating without good reasons.

Listed here are some stocks that look attractive now for long-term investors. None of these companies is flashing any of the warning signals listed above and all have excellent current and long-range prospects:

Boeing (38) is the leading manufacturer of commercial jets, with roughly 70% of the market. The worldwide recession has resulted in order cancellations and deferments, knocking the stock down 30% from its 1992 high. Although BA earnings will be up only marginally this year, the growth should accelerate as air travel picks up. BA has a P/E of 8 and yields 2.6%.

Grow Group (13) is a manufacturer of paints and coatings. The company should show a sharp increase in earnings in the current fiscal year, with further gains ahead. The stock trades at a P/E of 13 on 1993 forecasts and yields 1.8%.

Chubb (85) is a leading property/casualty insurer. Although Hurricane Andrew will take a bite out of 1992 results, earnings are likely to reach record levels this year. Chubb trades at a P/E of 13 and yields 1.9%.

Safeco (57) is a well-managed insurance company. Earnings should reach record levels this year and continue to show progress over the next several years. The stock trades at a P/E of 14 on somewhat depressed 1992 results and yields 2.9%.

Woolworth (28) is one of the largest retail chains with major operations in the U.S. and abroad. Earnings should recover to about \$2.30 a share in the fiscal year just ended (Jan. 1) and increase 20% in the current fiscal year. The stock trades at a P/E of 10 on 1993 estimates and yields 3.9%. ■

here's money to be made by anticipating which stocks soon will be upgraded by the famed Value Line ranking system.

Jumping the gun

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (Dearborn Financial Publishing).

VALUE LINE'S famed ranking system had a rotten year in 1992. According to Value Line's own numbers, the stocks it liked best did worse than the average of all 1,700 stocks in its universe—17% versus 19%. But that's not all: The stocks it liked the least did even better, gaining 29%.

But don't give up on Value Line's ranking system. It has tripped up before and come racing back.

Even after 1992's disappointment, the *Value Line Investment Survey* remains one of the top advisory letters for gains since 1980 among those tracked by the *Hulbert Financial Digest*. Even academics honor Value Line's long-term performance with the status of being an exception (or anomaly) to the Efficient Market Hypothesis.

But Value Line's *annus horribilis* does serve as a warning: It may be getting more difficult to profit from its ranking system. With 100,000 paid subscribers (and many more unpaid), it has become almost impossible to buy one of Value Line's newly recommended stocks before it already has run up significantly. Exploiting Value Line's ranking system in the future may depend on outsmarting the majority of other investors also following it.

Fortunately, this can be done.

Each week the *Value Line Investment Survey* segregates 1,700 of the most widely followed stocks into five categories according to their anticipated performances over the coming year. The ranking system's exact criteria are secret, but it favors earnings and price momentum (companies whose earnings and prices are increasing the fastest) as well as those with positive earnings "surprises" (those whose earnings are well above analysts' expectations). Receiving Value Line's highest recommendation (its Group 1) are the 100 stocks that rank highest according to these various criteria. The next highest 300 are placed in Group 2, the middle 900 are placed in Group 3, the next 300 in Group 4, while the 100 with the bleakest prospects are placed in Group 5.

The challenge for those wanting to outsmart the mass of Value Line's followers is to determine—in advance of Value Line's being received in the mail—which stocks are likely to be upgraded to Group 1. Recent research both in academia and on Wall Street shows that this is surprisingly easy. All you must do is focus on those Group 2 stocks with large positive earnings surprises. Chances are very high that such stocks will be upgraded to a Group 1 in a subsequent issue of the *Value Line Investment Survey*.

Consider the recent positive earnings surprise from Intel. It was in Value Line's Group 2 on Dec. 16, when the company announced that its fourth-quarter earnings would be significantly above analysts' expectations. In response, analysts on average revised upward their earnings estimates by more than 30%. Intel thus was a good bet soon to become a Value Line Group 1 stock.

But it wasn't until more than two weeks later that subscribers received

the issue of Value Line that upgraded Intel to Group 1. The advantage of acting immediately after the earnings announcement would have been substantial. According to money manager John James (who manages some \$12 million in a fund attempting to outsmart Value Line), his accounts bought Intel immediately after the earnings surprise at 79¼. A subscriber who waited until receiving his issue of Value Line that upgraded Intel to Group 1 would have paid 86½. By pursuing this simple approach, James has been able to achieve 3% to 4% per year more by following Value Line's Group 1 stocks than what the *HFD* reports by using the prices prevailing on the day Value Line is received in the mail.

How well do earnings surprises predict changes in Value Line ranks? Very well. According to a recent study by University of Notre Dame professors John Affleck-Graves and Richard Mendenhall (*Journal of Financial Economics*, February 1992), the Value Line phenomenon really is another academically recognized anomaly in disguise: the market's overreaction to earnings surprises. An investor who buys those stocks with large earnings surprises will end up owning most of the same stocks that Value Line has placed in Group 1, and will have very similar performance.

Professors Affleck-Graves and Mendenhall don't consider their study to be a criticism of Value Line. They continue to believe that the Value Line ranking system is one of the major anomalies within the efficient market. Rather, they see their work as explaining why it is that the ranking system works as well as it does. Indeed, for the mass of investors unwilling or unable to do the additional work required to act immediately on earnings surprises, these professors consider a subscription to Value Line to be a good way of acting on earnings surprises.

Are you willing to do the additional work? It's not that onerous: Earnings surprises are now regularly reported on the wire services. Of course, if the day ever comes when a major part of Value Line's following acts in advance of the ranking revisions, then the anticipation will no longer be so profitable. But that's some time off. ■

The long, severe decline in interest rates didn't produce a recovery in time to save George Bush. But it virtually assures investors a 1993 bull market.

The Fed's gift to Bill Clinton

BY CHARLES E. BABIN



Charles E. Babin is managing director of BRS Capital Management, Inc., an investment management firm in Boston.

REGARDLESS of what the new President does or doesn't do, his Administration is taking over an economy that is on the mend and gaining momentum. Of all the levers available to policymakers for jump-starting the economy, lowering interest rates is one of the most effective. When the economy slipped into recession (July 1990), the Fed discount rate stood at 7%. Today it's 3%. Over the same period the market rate of interest, as measured by the yield on three-month Treasury bills, dropped from 7.8% to around 2.9% in October 1992. This amounted to a 63% cut in the price of credit and the lowest T bill yield since 1963.

Almost as if to confound poor George Bush, the economy did not respond the way he must have hoped. But don't confuse this delayed reaction with failure of interest rate policy. Look at the table on this page. Measured peak to trough, T bill yields dropped 50% or more on seven prior occasions since 1950. How did the economy react? Slowly.

Much as during the current episode, industrial production stagnated as the price of credit dropped and picked up

only after interest rates bottomed out. It's just a matter of timing. Notice that, without fail, industrial production surged during the 12-month period following interest rate troughs, for an average pickup of nearly 10%.

The final column in the table shows that the pickup almost invariably spills over into the stock market. In five of the seven prior periods, interest rate troughs were followed by extraordinary double-digit returns for the S&P 500. The return was negative on only one occasion.

From this perspective, the timing of a Clinton bull market boils down to whether interest rates scraped bottom last fall. As a practical matter, it's hard to imagine they didn't, especially if credit risk, inflation and taxes are the prime determinants of the nominal interest rate. It's also noteworthy that

Treasury bill futures market quotations (International Monetary Market, Chicago) suggest that rates will drift higher during 1993. While futures pricing could prove wrong, I wouldn't count on it. Since their inception in January 1976, futures market quotations have functioned as a reliable barometer of credit market trends up to a year in advance.

When it comes to the stock market, there's always a rub. I have yet to meet an equity investor who wasn't worried about something. But the linkage between interest rate movements and the business cycle suggests strongly that prosperity is around the corner, regardless of Mr. Clinton's economic prescriptions. If so, another opportunity to pocket sizable returns in the stock market could be in the offing.

Will lower rates spark prosperity?

—Interest rate cycle—		Reduction in price of credit	Industrial production index		S&P 500 total return ²
peak (rate) ¹	trough (rate) ¹		during cycle	post cycle ²	
Mar 1989 (8.9%)	Oct 1992 (2.9%)	-68%	1.7%	NA	NA
Aug 1984 (10.6)	Oct 1986 (5.2)	-51	1.7	9.2%	6.4%
Aug 1981 (15.5)	Sept 1982 (7.6)	-51	-5.8	8.9	44.3
Aug 1974 (8.9)	Dec 1976 (4.3)	-51	-4.4	6.8	-7.4
Dec 1969 (8.0)	Jan 1972 (3.4)	-58	3.6	9.2	14.8
Dec 1959 (4.4)	Oct 1960 (2.1)	-52	1.6	6.2	32.6
Oct 1957 (3.6)	May 1958 (0.6)	-84	-7.7	13.5	37.7
May 1953 (2.3)	June 1954 (0.6)	-72	-6.9	13.7	19.1
Average		-61	-2.0	9.6	21.1

¹Three-month Treasury bill yield, month-end close. ²Twelve-month performance after interest rate trough.
NA: Not available.

Industrial production languished as the price of credit declined, but rebounded once rates bottomed out, as did the S&P 500. Assuming the nadir in interest rates occurred last October, now is not the time to shun equity investment.

I'm usually uncomfortable when I'm in a majority, but 1993 may be an exception. Is the dollar poised for recovery?

Year of the dollar

BY ANDREW J. KRIEGER



Andrew J. Krieger is managing director of KB Currency Advisors, Inc., a foreign exchange investment management and hedging/advisory firm based in Englewood Cliffs, N.J. He is author of *The Money Bazaar*.

AS WE BEGIN a new year, I find myself in a dilemma regarding my scenario for how dollar/mark—the world's most actively traded instrument—will fare over the coming months. The overwhelming sentiment among foreign exchange dealers, speculators and economists is that the U.S. dollar is going to move much higher against the German mark this year.

I happen to agree with the prevailing sentiment—and that's what creates my dilemma. Experience has taught me to be skeptical of the long-range sustainability of market moves when general market sentiment is too heavily weighted in one direction.

What makes my dilemma worse is that there are times when the majority is right, not wrong, and we may be in such a time. Typically there are two instances when traveling with the herd is the right strategy.

The first occasion occurs during those rare instances when traders have very strong views but do not have the positions to match. In general, this exception has the highest probability of occurring over the year-end period when banks and their customers largely reduce their currency exposures to avoid getting hurt by thin and

whippy market conditions. This past December was typical in this regard, and it could very well be that because of year-end inactivity there is a lot of pent-up demand for dollars.

The other instance occurs when fundamentals so overwhelmingly shift in favor of one currency that layer after layer of market participants can reasonably be expected to buy the newly favored currency. This, too, might be the current situation.

Let me explain why I think the dollar may be in this position.

Inflationary pressures brought about by German unification and the structural economic changes it entailed have forced the Bundesbank into a deflationary mode with an extremely tough monetary policy. The central bank is hoping to sufficiently weaken the economy so that inflationary pressures abate and the foundation can be laid for sustained noninflationary (no greater than 2% per annum) economic growth.

The Bundesbank is also extremely sensitive to the long-run dangers of large fiscal deficits, and wants some action taken on this front as well. Therefore, a significant relaxation of monetary policy will also be dependent on the government's introducing measures aimed at balancing the budget. With budget cuts coinciding with an economic slowdown, there is an increasing danger that social pressures will mount as the situation deteriorates and unemployment rises. These things will weaken the mark.

Add to this the fact that euphoria regarding Germany's prospects after reunification with the east was predicated upon several assumptions that have subsequently been shattered. One was that Russia and the former Soviet Union would prove to be enormous export markets into which Germany was perfectly positioned to sell. The other was that a unified Germany

would be better positioned to export its goods into a rejuvenated, integrated pan-European community. In fact, the CIS economies have effectively collapsed, while economic conditions have worsened among Germany's European trading partners.

Germany's economic conditions and prospects contrast sharply with those of the U.S. The U.S. economy has experienced several false starts as it has tried to crawl its way out of recession, but it seems that a sustained, albeit modest, period of growth has finally begun. At the very least, the U.S. economy has halted its long decline. The Clinton Administration takes charge during a period when optimism is running high, and this shift in sentiment will help fuel the growth process. Among the factors that will be critical in this recovery phase are the higher level of manufacturing productivity, low inflation, cheap cost of capital, increased exports to the fast-growing nations in Latin America, and a general shift from consumption to investment.

The conditions I have just listed should help offset some of the deflationary forces that have been at work in the U.S., with the net effect a healthier, but not robust, economy.

Assuming that these views regarding the relative growth prospects of Germany and the U.S. are accurate, one can safely conclude that the next significant shift in their interest rate differentials will be a narrowing from the current 5% annual spread: German rates are likely to drop while U.S. rates are likely to remain stable or rise. In addition, we should see brighter investment prospects in the U.S. than in Germany.

Thus the preponderance of evidence points to a stronger dollar in 1993 versus the deutsche mark. Of course, chances are the market will move in a choppy, ratcheting fashion as there will be a tendency for the market to become too long of dollars at the wrong levels. But even though we may be in for a bumpy ride, if you time your dollar purchases right and hold on to your hats, 1993 will likely see the U.S. currency appreciate against the German currency. It could be one of those rare times when the pundits are right and the market moves as anticipated.

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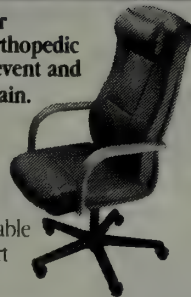


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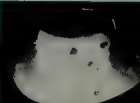
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Something for nothing

IF YOU WANT to become a minority partner of Herbert Siegel, here's an interesting possibility. Buy some shares in cash-rich BHC Communications, Inc. It trades on the American Stock Exchange. Recent price, 59¢. There are about 26.5 million shares outstanding.

One of the country's shrewdest media investors, Siegel used BHC as the holding company for his stock in Warner Communications. (He went into Warner as a white knight, to protect Steve Ross from Rupert Murdoch.) As a result of Warner's merger into Time Inc. in 1990, BHC received a heap of cash and Time Warner preferred stock. The cash and securities are now at \$1.6 billion.

These liquid assets alone are worth \$60 per BHC share. But there's more. The company also owns three television stations (including metropolitan New York's WWOR and Los Angeles' KCOP) and 53% of United Television, Inc., which owns five more stations. Essentially, at BHC's recent market price, investors receive these broadcast assets for free.

How much are they worth? United Television has been trading at 27, valuing BHC's stake at \$150 million. And Stamford, Conn.-based media broker Frank Boyle says the three stations BHC owns outright could fetch as much as \$640 million. Using these figures, BHC's broadcast assets are worth around \$30 a share. That values BHC at around \$90 a share, 50% above the stock's recent price.

"The stock is just screaming buy," Gabelli & Co. media analyst Nancy Enslein says enthusiastically. Mario Gabelli and his funds own 21% of BHC.

Siegel, who owns a minority of BHC's stock but controls 95% of the voting power, agrees with Enslein. At his direction, BHC has been quietly repurchasing its stock in the open market, at prices in the mid-50s.

—RANDALL LANE

Valuable junk

IS THERE still money to be made in underpriced junk bonds? MGM's subordinated junk bonds, currently yielding over 20% to maturity, may be



a good buy right now. Metro-Goldwyn-Mayer, the glory of old Hollywood, has fallen on hard times. Ted Turner now owns most of its old movies. The company's creditors petitioned to put the company into bankruptcy in 1991. Though MGM never went bankrupt, the French bank Crédit Lyonnais eventually emerged with 98.5% control.

To protect its ownership of the still floundering company—MGM has an accumulated debt of \$600 million—Crédit Lyonnais must see to it that the junk doesn't default. To meet a sinking fund requirement, MGM acquired \$15 million of the senior 12½% bonds last November from a Crédit Lyonnais subsidiary, with an option on another \$30 million.

Who sold the bonds to MGM? The Apollo fund, managed by Leon Black and capitalized with roughly \$1 billion of Crédit Lyonnais money. These bonds were presumably acquired as part of the First Executive portfolio, which Apollo acquired last spring from the state of California.

Ronald Vannuki of Santa Monica, Calif.-based Drake Capital Securities, a specialist in distressed paper, is buying MGM's 13% subordinated debentures, which, at 75 cents on the dollar, yield just over 23% to maturity. MGM, now financed by the deep pockets of the French bank, has announced that it will buy more of its paper on the open market. Thomas Carson, MGM's chief financial officer, says that at the right price he will buy back the \$80 million of outstanding senior subor-

ordinated notes, due this December and then buy the \$220 million of 13% subordinated debentures outstanding. A tender offer for the subordinated debentures may be in the picture. With Crédit Lyonnais behind MGM, its bonds aren't nearly as junky as they look at first glance.

—TATIANA POUSCHIN

Kluge's coattails

A COUPLE WEEKS AGO Metromedia Chairman John Kluge, America's second-richest man, and his right-hand man, Stuart Subotnick, bought 425,000 shares of little Image Entertainment Inc. at \$6 apiece. The purchase increased Kluge and Subotnick's holdings in Image Entertainment from 35.9% to 38.2%, and pushed the company's o-t-c traded stock to a recent 7¼.

Christopher Marlett, an analyst with Santa Monica's Drake Capital Securities, has been following Image Entertainment and thinks Kluge and Subotnick are on to a good thing. Based in Chatsworth, Calif., Image Entertainment is the country's largest licensee and distributor of laserdisc programming in the U.S. Laserdiscs are phonograph-record-size platters that carry digitalized programming—movies, music videos and the like. Image Entertainment licenses film for laserdiscs and sells the discs through some 2,200 retail outlets including hundreds of record stores around the country.

By Marlett's count, there are only 750,000 U.S. homes that have laser disc players, versus 80 million with videocassette recorders. But Marlett thinks the laserdisc-player base will rise to 5 million during the next five years. If so, Image Entertainment's sales could explode—from just \$60 million last year to \$360 million, in Marlett's opinion.

Note the "mights" and "maybes." This stock is not for widows and orphans. The laserdisc technology may take off. Then again, it may not as cable television companies deliver digitalized programming into the home. Image barely broke even in fiscal 1992 (ending Mar. 31). Marlett expects it will lose about \$1 million or \$63 million in sales in fiscal 1993.

and Marlett notes that Kluge nearly sold his stake in the company a couple years back.

Still, if you're looking for a small company with big potential and can afford to lose every dollar invested, Page Entertainment is worth a close look. (There are 12 million shares outstanding.)

—ELIZABETH COMTE

The Templeton/Ziskin Bargains

DECEMBER legendary investor Sir John Templeton upped his stake in Harry Ziskin's Z-Seven Fund. Z-Seven is a closed-end fund whose shares here are only some 1.6 million outstanding) trade over-the-counter. Templeton had purchased some 10,000 shares in 1990 and 1991. In a private placement in December, he paid around \$5 million for another 50,000 shares, bringing his stake to about 24%.

What attracted Sir John? "It's a very small matter and I gave ten minutes to the question," says Templeton, when reached at his office in Nassau, in the Bahamas. "It's just a convenient way to buy bargain stocks."

Z-Seven is heavily weighted toward small-cap British stocks, a group that Templeton feels is undervalued. These include Z-Seven's biggest holding, British tour operator Air Tours Plc.; it accounts for nearly one-fifth of total assets. Other holdings are equipment manufacturer EIS Group, pharmaceutical maker United Drug, and computer services and software company Sage Group.

A word of warning to anyone interested in buying some of Z-Seven's shares. The fund has often traded at a hefty premium to its net asset value. In early 1992, for example, the premium was more than 20%. But by this December, the premium had virtually disappeared. Since Templeton's purchase, other investors have pushed the premium back up. At a recent 6½%, the shares were trading at an 8% premium to the fund's \$15.26 a share net asset value. *

Streetwalker's advice: Don't buy until the premium eases back down a few points.

—AMY FELDMAN ■

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he more things change . . ."

0 years ago in FORBES

(FROM THE ISSUE OF FEB. 3, 1923)

A broad program of radio standardization was agreed upon at a meeting of representatives of 40 radio trade associations and national engineering and scientific societies."

As income tax dodgers, small merchants, particularly those of foreign birth, are artists. They used to keep books. Now they do not. The revenue collectors trapped some of them when they discovered the merchants were putting their money in banks. When the merchants found another way. They rented safe deposit boxes. . . . To the revenue collector they profess poverty. They also pretend to have no money or, rather, no profit. Also they have extraordinary difficulty in understanding the investigators' English."

0 years ago

(FROM THE ISSUE OF FEB. 1, 1933)

Whether or not the Glass bill in all its details is perfect, whether or not the selfish interests of small-town bankers run counter to the perfectly obvious need for extension of branch banking, every businessman and every individual who has a real interest in the lessening of human suffering should insist, in any way he knows how to insist, that no matter what else happens the Congress of the U.S. must get down to business and give us banking reform without further delay."

"If I were convinced that the world is a finished job, that there was nothing new in sight, then I might subscribe to the theory which is being advocated at the present time, that the so-called

machine age is a failure, and the cause of our present troubles. But the world isn't a finished job. We are just long on bookkeeping right now, and short on imagination and initiative."

—GM research head Charles Kettering

50 years ago

(FROM THE ISSUE OF FEB. 1, 1943)



World War II Mustang fighter wore wooden tires during assembly, got its fighting rubber ones at the airfield.

"A vast army is massing on the industrial front—9 million physically handicapped persons who are eagerly awaiting the call to take part in the battle of production. The vanguard of this army, welcomed with open arms by industry, is giving proof daily that they are capable substitutes for the able-bodied who are called to the colors."

"Some better-class New York City restaurants have increased single lunch dishes by 25 cents to 50 cents, dinner dishes even more. Fish has soared as well as meat. I have before me one lunch menu. A piece of bluefish, with baked potato, costs \$1.50; filet of flounder, julienne potatoes, \$1.50; scallops and bacon, \$1.60; hamburger steak, \$1.50."

—B.C. Forbes

25 years ago

(FROM THE ISSUE OF FEB. 1, 1968)

"Babies may be Gerber's only business, but parents are Gerber's main customers. Now, Gerber is getting into the life insurance business in order to make sure baby will still eat, even if something happens to Mom or Dad. Chairman Dan Gerber calls the new business aimed at young couples a 'natural field that fits perfectly with

the rest of the business.' With the birthrate down, he is looking elsewhere for profits."

10 years ago

(FROM THE ISSUE OF JAN. 31, 1983)

"The computer services arm of Xerox in Los Angeles tested satellites for use in its time-sharing computers [but] found that its 900 corporate customers in the U.S. and Western Europe would be better served by old-fashioned telephone lines. Cost is not the factor. Transmission via satellite takes an extra second—a quarter-second up to the satellite, another down to the Xerox computers, another half-second for the return trip. That, says Xerox, endangers the company's guarantee that time-sharing customers will always make contact within two seconds. . . ."



Japanese farm union poster of bold Hulk repelling U.S. superman with goods.

"Through November Japan's exports were down by more than 13% for the second half of 1982, the biggest peacetime decline since the 1938-41 period. Behind that stark figure lies a dramatic story, one that runs counter to nearly all that Americans are seeing and hearing about Japan's economy. The simple fact is that the Japanese can no longer go on doing business in the way that has made them so successful. The nation . . . doesn't know which way to turn."



The Selden auto, vintage 1895.

It isn't success if it costs you the companionship and chumminess and love of your children. Very often busy, wealthy men of momentous affairs discover too late that they have sacrificed the finest thing in life, the affection of their family. Let me relate an incident [containing] a priceless suggestion for many ultra-busy businessmen. Frank L. Baker, prominent public utility executive, told a friend that he was going to give his young son an unusual Christmas present: "I am going to write my boy a letter telling him I am going to give him an hour of my time every day." Alas, Mr. Baker died two weeks later.

—B.C. FORBES

A Text ...

I will lift up mine eyes unto the hills, from whence cometh my help. My help cometh from the Lord, which made heaven and earth.

—PSALMS 121:1-2

Sent in by Alvin J. Moser, River-view, Fla. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

I have come to the conclusion that politics are too serious a matter to be left to politicians.

—CHARLES DE GAULLE

Let us be thankful for the fools; but for them the rest of us could not succeed.

—MARK TWAIN

Homework, root canals and deadlines are the important things in life, and only when we have these major dramas taken care of can we presume to look at the larger questions.

—CYNTHIA HEIMEL

There never was a good war or a bad peace.

—BENJAMIN FRANKLIN

Philosopher: A man up in a balloon, with his family and friends holding the ropes which confine him to earth and trying to haul him down.

—LOUISA MAY ALCOTT

It is far easier to act under conditions of tyranny than to think.

—HANNAH ARENDT

Men have prayed in prison, men have prayed in slums and concentration camps. It's only the middle classes who demand to pray in suitable surroundings.

—GRAHAM GREENE

A politician is a person with whose politics you don't agree; if you agree with him he is a statesman.

—DAVID LLOYD GEORGE

When the gods choose to punish us, they merely answer our prayers.

—OSCAR WILDE

The secret of the demagogue is to make himself as stupid as his audience so they believe they are as clever as he.

—KARL KRAUS

I figure you have the same chance of winning the lottery whether you play or not.

—FRAN LEBOWITZ

Hope is a feeling that life and work have a meaning. You either have it or you don't, regardless of the state of the world that surrounds you.

—VACLAV HAVEL

Government can easily exist without law, but law cannot exist without government.

—BERTRAND RUSSELL

You can never be too rich or too thin.

—DUCHESS OF WINDSOR

One difference between savagery and civilization is a little courtesy.

There's no telling what a lot of courtesy would do.

—CULLEN HIGHTOWER

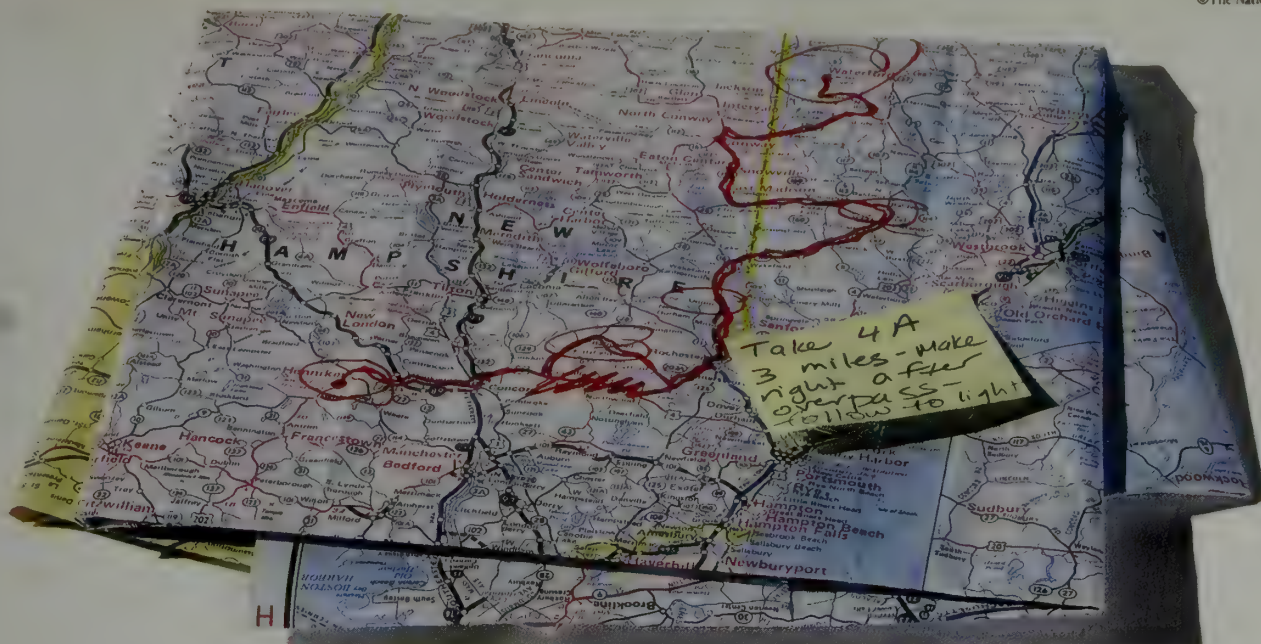
It is the beautiful bird that gets caged.

—CHINESE PROVERB

Each man has, each year, his moment of madness, when he ties a rope around his neck, hands the end to his worst enemy, and says "Pull."

—JOHN P. GRIER

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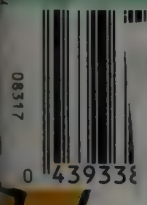
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For more information, call 1 800 446-8888. Or

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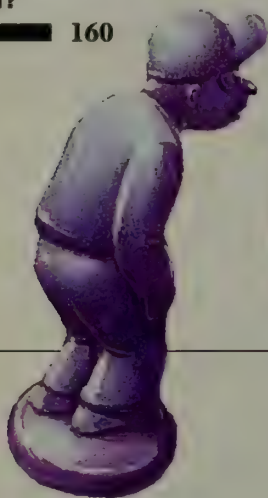


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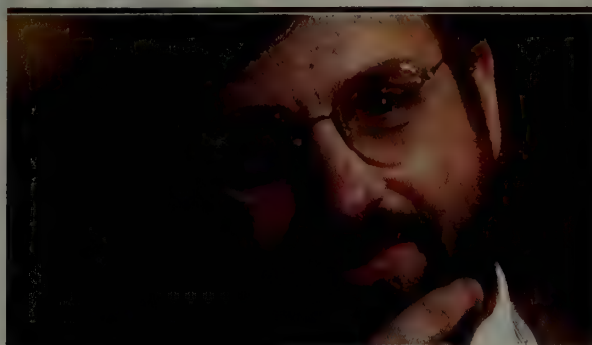


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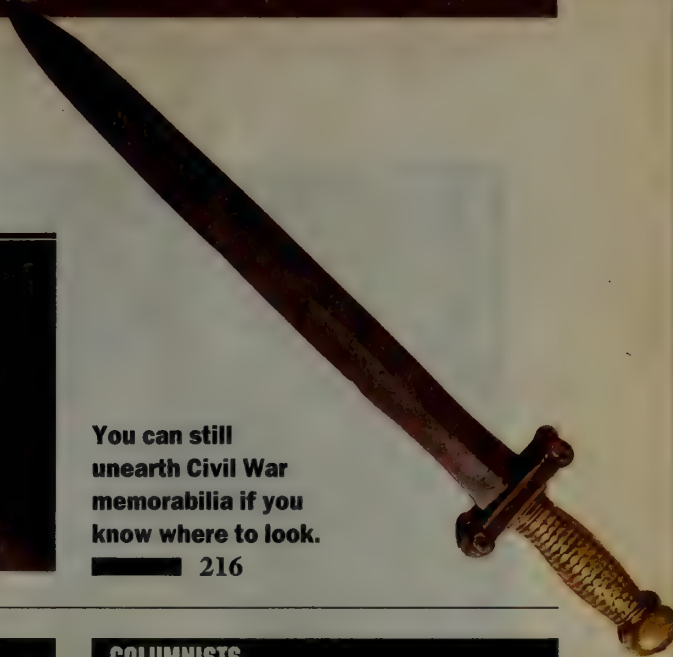
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Cover illustration by Gary Hallgren



MATSUSHITA LAUNCHED
the first global corporate
bond offering ever, and demonstrated that choosing the
right road is as important as
knowing the right destination

In the spring of 1992, U.S. interest rates were approaching 10-year historic lows. For Matsushita, a worldwide corporation with consumer electronics brands such as JVC, Panasonic and Technics, this provided an excellent opportunity to refinance a portion of its short-term debt remaining from its acquisition of MCA Inc. in 1990.

After evaluating its alternatives, Matsushita decided to issue a \$1 billion global bond offering. It was something that no corporation had ever done before.

Matsushita needed an underwriter capable of managing the offering in every market. They chose Lehman Brothers.

AROUND THE WORLD IN A SINGLE OFFERING.

Ultimately, the issue's success would depend on the fact that a true global market exists only for those who create it.

Matsushita and Lehman Brothers structured an offering that would be treated as a home market security in the U.S. and in global markets. This was done by sat-

isfying an array of complex and diverse requirements, including the markets' different regulations, practices and the untested European appetite for registered corporate bonds.

Lehman Brothers' bankers, traders and salesforces in Tokyo, New York and London integrated the planning and execution of the offering. It sold out in one day.

THE RIGHT THING TO DO. THE RIGHT WAY TO DO IT.

Crucial to the success of Matsushita's offering was Lehman Brothers' worldwide team combining industry expertise with market intelligence and distribution strength.

The ability to structure and place complex debt issues in a timely fashion has made Lehman Brothers a recognized leader in bond underwriting and has enabled us to raise more than \$40 billion in debt for our clients all over the world in the past year alone.

If your company has a problem or opportunity that could use that kind of capability, we'd like to be involved.

LEHMAN BROTHERS

Forbes

**EACH
REFERENCE IS TO
THE FIRST PAGE
OF THE STORY IN
WHICH THE
COMPANY NAME
APPEARS.**

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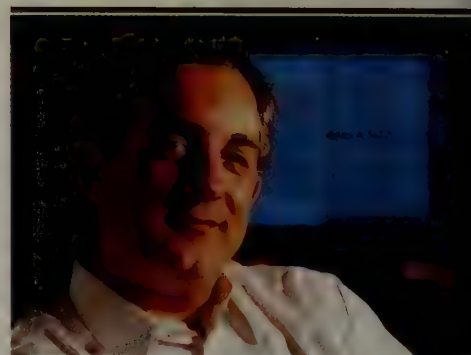
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The E-mailman

SOFTWARE GURU Mitchell Kapor is founder of Lotus Development Corp., whose spreadsheets helped make the PC into the ubiquitous business tool it has become. Kapor tends to speak tersely, sparingly in person, but he's loquacious on E-mail. So that's the way FORBES computer/communications reporter David Churbuck often interviews him—via E-mail.



Lotus founder Mitchell Kapor

And that's how Kapor became a FORBES guest columnist.

Churbuck ran into Kapor at Esther Dyson's computer conference last year. Seizing the opportunity, Churbuck blurted out something he had talked about with his editors: "Mitch, why don't you write a column for FORBES?" A few months later Churbuck got an E-mail query from Kapor: Does the column offer still stand?

It still stood. Kapor's first column appeared last November. The second is in this issue. It came, of course, via modem, but it appears in a form even the computer-nonliterate can read on page 208.

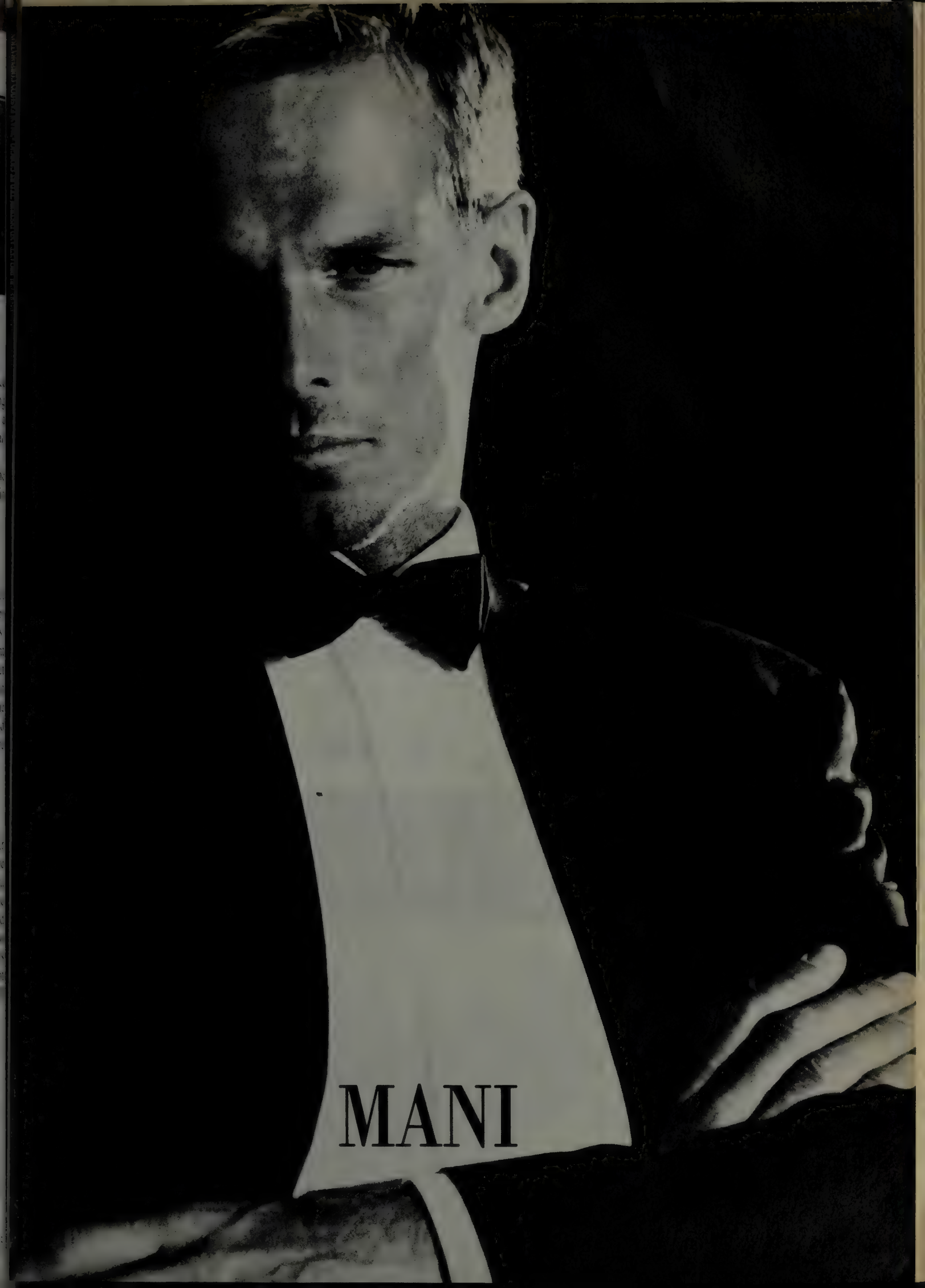
Have civil rights become quota wrongs?

UNDER THE benign-sounding name of affirmative action, racial, linguistic and gender quotas are permeating American life. They influence hiring and promotion and purchasing decisions. Admission to elite universities and professorial appointments. Government contracts and civil service hiring. The media even parse Cabinet appointments by race, gender and ethnicity, as President Clinton learned to his anger. But there is precious little discussion in the media about the rights and wrongs of quotas. Peter Brimelow and Leslie Spencer tackle the touchy subject in "When quotas replace merit, everybody suffers." Turn to page 80.

How thorough?

FOR THEIR ARTICLE "Who pays the piper..." Dana Wechsler Linden and Neil Weinberg did an exceptional amount of detective work, running down sources in places as far apart as South Carolina, India, Dubai, Northern England and Panama. They found some scary things about a company called Ross Cosmetics. Yet Ross had only recently been given a pretty clean bill by a distinguished law firm—one of many U.S. companies that have hired outside lawyers to investigate charges against them. The FORBES writers looked at Ross and a couple of other outfits similarly cleared and came away full of doubts about these investigations by special counsel. Page 126.

James W. Michaels
Editor



MANI

How to



Start a car.

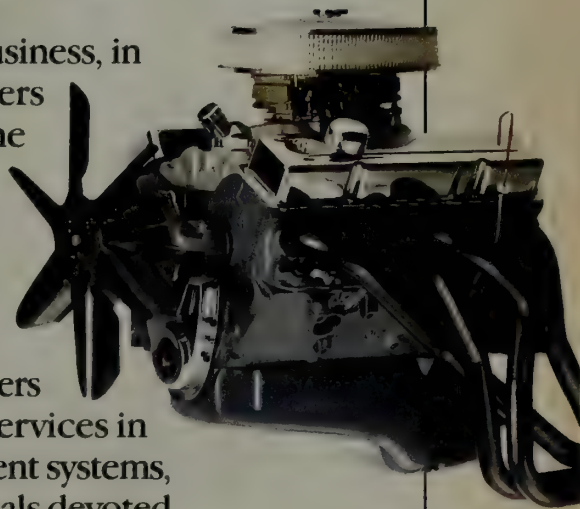


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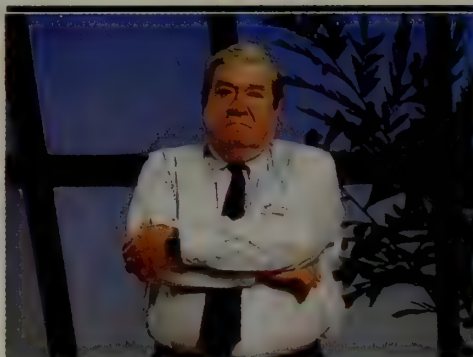
Joyce McCracken, Mgr. Sales Information

Disappointment

JUST AS Texaco Inc. underestimated Pennzoil Co. Chairman J. Hugh Liedtke, so FORBES may have overestimated him. Liedtke's company won \$3 billion in 1988 from Texaco in the famous battle for Getty Oil, but by late 1990 Pennzoil's stock, which peaked at 95 in 1987, was down to about 67. Noting that Liedtke was "a master at producing miracles," FORBES declared: "Don't bet on his sitting helplessly" (Dec. 10, 1990).

Liedtke hasn't done much in the interim to live up to that billing. He did avoid a potential \$800 million income tax hit on the Texaco windfall by buying around 9% of Chevron's common stock, then swapping half of it back to Chevron for energy reserves, doubling Pennzoil's oil production and raising its natural gas production by 75%. Pennzoil also sold about \$400 million of debentures convertible into a small portion of the remaining Chevron stake.

But all this hasn't done much for



Pennzoil Chairman J. Hugh Liedtke

He hasn't lived up to his billing.

shareholders. Pennzoil has not earned its \$3 dividend since 1989; analysts estimate it will show just \$2.75 a share this year, and that's a lot better than 1992's 85 cents. Still, Pennzoil stock is mired at around 50, barely half its old high.

—WILLIAM P. BARRETT

Clearly chastened

WHEN WE PANNEED Vancouver's Clearly Canadian Beverage Corp. 15 months ago (Nov. 11, 1991), several stockbrokers wrote in to pan us. Didn't FORBES know about the smashing success of Clearly Canadian's sparkling water flavors, with countrified names like Orchard Peach



After losing over half its market value, is the company finally a buy?

and Mountain Blackberry? Who was FORBES to say that after running from 3½ to 24¾ in less than a year and trading at 50 times trailing earnings, Clearly Canadian's Nasdaq-listed stock was getting ahead of itself? And so what if Clearly Canadian had arisen from the corporate ashes of faddish Jolt Beverage Co., whose stock collapsed in 1987?

Turns out this was one of our better calls. True, Clearly Canadian's stock, after dropping to 15 in the wake of our story, recovered to 25 early last year. But it's been downhill ever since. Recent price: 9½.

Although volume increased 25% in 1992, to some 23 million cases, it fell in the second half from year-ago levels. Clearly Canadian President Douglas Mason blames the drop-off on the weather—a cool summer caused a temporary inventory bubble at the distributor level, he says.

But Clearly Canadian is also encountering tough new competition from Perrier and Coca-Cola; the latter is test-marketing Nordic Mist, a flavored sparkling water. In response, Clearly Canadian and its distributors will double marketing expenditures this year, to \$25 million. Moreover, having expanded distribution last year to Japan, Mexico and most of the Caribbean, Mason is now cutting a European distribution deal. "The company, in our opinion, has never been in better shape," Mason recently told FORBES. He predicts revenue growth of 20%-plus through 1994.

But Jennifer Solomon, an analyst at Mabon Securities, isn't persuaded. She expects earnings of \$1.25 this year, up from an estimated 88 cents in 1992. If it makes that number, Clearly Canadian is selling for a very modest seven times anticipated earnings. Yet Solomon rates the stock a hold. "If we get comfortable that volume trends will improve," she says, "we will go to a buy."



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Popular revolt

YOU RARELY SEE the chief executive of a public company lose his job because of a public referendum. But that seems to be the fate of John Ackerman, head of troubled Public Service Co. of New Mexico. By a margin of better than 2-to-1, in December citizens of Albuquerque defeated a Public Service-backed referendum that in



Public Service's John Ackerman
Albuquerque's voters said no.

effect would have extended the utility's monopoly to provide electricity for another 15 years.

Why the defeat? As *FORBES* recently reported, during the 1980s Public Service had turned off its shareholders and customers alike by botching its diversification efforts and by maintaining electric rates that are relatively high for the region (*Dec. 7, 1992*).

Ackerman, who took over from Jerry Geist in 1990, tried to repair the damage and had made some progress. But the voters could not be ignored. Last month Ackerman, 51, announced he will relinquish his duties as chief executive after a replacement is found; he will continue to be chairman. The utility also announced layoffs and other executive departures, and accelerated plans to sell off unwanted generating capacity, a small water company and other assets.

The company will continue to serve Albuquerque, which accounts for about half of its \$857 million in annual revenues. But shorn of its monopoly powers and with massive debt to service, Public Service faces a less certain future. A rival outfit could seek permission to lower rates, or another utility could make a hostile bid for Public Service. Stay tuned.

-W.P.B.

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Head chopping time

BRANDON TARTIKOFF, the entertainment whiz whose resignation last year as chief of Paramount Communications' movie studio caused such a stir, is rumored to be back as a consultant with his old employer NBC. His hush-hush assignment? To recruit a replacement for NBC Entertainment President Warren Littlefield. It could



John Seppel



A. Daily News/John J. Haran

Brandon Tartikoff

Warren Littlefield

Will NBC get the right man this time?

be a touchy task for Tartikoff because Littlefield was Tartikoff's protégé at NBC for five years and his hand-picked successor. But the job's got to be done: NBC has sunk to third in the ratings war since Littlefield succeeded Tartikoff in 1991.

Aspen adieu?

BILLIONAIRE Marvin Davis may be negotiating to sell his 50% interest in the Aspen Skiing Co. to Chicago-



Anthony S. Caputo/Photo Bank Corp.

Billionaire Marvin Davis

Taking a powder from the powder?

based developer Norman Perlmutter. (The other half is owned by Chicago's Crown family.)

According to the *Aspen Daily News*, Perlmutter has told members of the Snowmass town council that he and Davis have reached an agreement. The report makes sense because Perlmutter and partner Eugene Golub already control the Snowmass Land Co., which plans to develop property around Aspen's Snowmass ski resort, one of the three Aspen ski resorts owned and operated by Aspen Skiing Co. (Its other two are Aspen and Taehack-Buttermilk.) Aspen Skiing Co. also has some choice real estate, including the swank Little Nell hotel, at the base of Aspen Mountain.

Neither Davis nor Perlmutter would comment on the story, but Davis is believed to be asking for at least \$75 million. —JOHN H. TAYLOR

Hostage tax

SEVERAL BIG Wall Street firms have found a new source of income: account transfer fees. Shearson Lehman Brothers and Smith Barney Harris Upham will soon join Prudential Securities in billing customers \$50 if they move their accounts to another brokerage. The charge is said to cover the cost of processing paperwork. Brokers at firms lacking such an exit fee have gleefully taken to calling it a "hostage tax."

Here's a way to avoid paying the penalty if you move your account: Ask your new broker to reimburse you for the old broker's exit fee. Given the competitiveness of the securities industry, the new broker is unlikely to say no.

—WILLIAM P. BARRETT

Lighting up the skies

LAST YEAR 32 new U.S. airlines took to the skies, each with its own gimmick to attract passengers. Now comes Smokers Express Airlines.

You guessed it. Smokers Express will allow passengers to smoke their hearts and lungs out on the nonstop service it hopes to offer (at competitive prices) from the Space Coast executive airport, in Titusville, Fla., to Orlando, Atlanta, Chicago, Dallas, Las Vegas and Atlantic City.

Smokers Express is the brainchild



of William Walts and George (Mickey) Richardson, a couple of Cocoa Beach, Fla. businessmen who like to smoke. How will they get around the Federal Aviation Administration's ban on smoking on domestic flights? By incorporating the airline as a travel club and recruiting members at \$25 in annual dues. They say they already have 500 members, and are now seeking FAA certification.

Richardson says he hopes to finance some of Smokers Express' \$3.5 million startup costs by selling sponsorships to tobacco companies.

—CLAIRE POOLE

Dances with McDonald's

DURING THE Christmas season, McDonald's came out with a big promotion: buy a \$2.25 Big Mac and get a specially packaged videotape of *Dances with Wolves* for just \$7.99. The promotion was a hit with McDonald's customers, but not with most video retailing stores. Orion Pictures, which owns the 1990 Oscar-winning movie, was charging the vid-



Scene from "Dances with Wolves"

Did Trans World make a meal of it?

o stores an estimated \$79 per copy or the same version of the movie (minus the packaging) and recommending that they sell it for \$99.

But Albany, N.Y.-based Trans World Music Corp. (estimated 1992 sales, \$455 million) didn't complain. It has been selling the made-for-McDonald's version of *Dances* in its Coconuts, Record Town and Saturday Matinee video chains. Trans World's price: \$14.99. It has sold thousands of these *Dances* tapes.

The buzz in the video retailing business is that Trans World's store managers must have eaten lots of Big Macs and then loaded up on *Dances* tapes. McDonald's had neglected to limit its offer to one *Dances* per customer. Even including the price of the burger in the video's cost, the retail markup would come to nearly 50%.

Jeffrey Jones, Trans World's chief financial officer, won't confirm the rumors, but he does say, with a verbal wink: "Don't you find it quite clever, creative and entrepreneurial that we would be able to pull off something like this?"

—LISA COLEMAN

Slow learner

IS RUSSIA, the former socialist paradise, ready to import a modified brand of socialism from the U.S.? David Kotz, an associate professor of economics at the University of Massachusetts, Amherst, has been in Moscow urging Russians to go back to rigid price controls and central planning. To halt hyperinflation, Kotz says, Russia's parliament should impose a three-month freeze on all wages, prices and exchange rates. After the three months are up, the government should set prices of raw materials and energy, as well as set prices on the output of most medium and large-scale enterprises. Kotz also wants the central government to reassert control over distribution of goods and investment.

"The ideal system [of price controls] would encompass the entire economy," argues Kotz. Kotz may have found an ally in Ruslan Khasbulatov, the powerful speaker of the Russian parliament and foe of free enterprise who has asked Russia's Academy of Sciences to study Kotz's idea.

—PAUL KLEBNIKOV

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Way to go

SIR: Describing American management as masters of "catchword" techniques like total quality management, just-in-time, and lean manufacturing is generous ("The myth of U.S. manufacturing's decline," *Jan. 18*). While recognition of the need has increased recently, there is still a wide gap between the potential and the reality. In particular, the techniques that work so well on the shop floor need to be moved to the purchasing, design room and accounting departments.

—JIM AYERS

Ingersoll Engineers Inc.
Rockford, Ill.

Reckless game

SIR: "Danger zone" (*Jan. 18*) confirmed many of my worst suspicions about why so many sub-secondary stocks are trading so out of touch with reality. If I wanted to engineer a scenario which would cause the public to demand a significant curtailment of free markets, I could think of no better plan than to let these games go on and let nature take its course for a few years.

—THOMAS J. LEWIS

Mendham, N.J.

Frivolous suits

SIR: Re "Shoot the hostages" (*Dec. 21, 1992*). Lawyers file frivolous suits because they know defendants will settle for an amount slightly less than what it would cost to fight the suit and win. It's a form of legal blackmail.

—PAUL SACK

San Francisco, Calif.

SIR: Rule 11 does not (in our world) serve to inhibit plaintiffs at all. Most plaintiffs asserting frivolous cases (if there is such a thing anymore) are "judgment proof." In theory, Rule 11 deters frivolous litigation. In practice, it increases the risk of advancing meritorious defenses.

—JACK W. WESTALL JR.

Asheville, N.C.

Binding ties

SIR: That Southern California Edison and Pacific Gas & Electric want to be sure they are not being overbilled is both normal and legal, and is not

evidence that the utilities are trying to get out of their commitments. They are not ("Power plays," *Dec. 21, 1992*). The commitments on the part of the utilities to buy nonutility power are legally valid contracts between the suppliers and the utility purchasers. The utilities are entitled to be made whole if the contracts—or relevant regulations—have been violated. But this in no way represents any concerted attempt on the part of the utilities cited to break these contracts or to avoid future purchase of nonutility power.

—STEVEN D. BURTON

Chair

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For the common good

SIR: Re "You haven't seen anything yet" (*Nov. 23, 1992*). The European commission's policy is to march in step with public opinion and to encourage citizens and businesses to see the benefits of greater cooperation rather than impose rules from on high. Through the creation of the single European market, the commission, far from intervening in business, is helping to create a far freer trading system than has existed in Europe before.

—BRUNO DETHOMAS

Spokesman

Commission of the European

Communities

Brussels, Belgium

Die-hard fan

SIR: I thought FORBES had just shorted the entire baseball card market ("Honus Wagner strikes out," *Jan. 4*). There's a lot of junk product in

A 1952

Topps

Mickey

Mantle

card

Always

a winner.



Larry Fleming

the collectible-market place, and there will always be excess hype surrounding anything profitable. However, recent pullbacks in quality card prices are a buying opportunity for those of us who have favorite players and still love our national pastime.

—ANTON J. KOACH

DeKalb, Ill.

Hats off

SIR: Re Follow-Through (*Dec. 21, 1992*). When you shout, "Did he get taken this time?" as you did about Primerica's Sandy Weill on your Apr. 15, 1991 cover, then "follow through," as you did in your Dec. 21, 1992 issue, in a comparative whisper that well, no, he didn't, then don't you agree that congratulations are forthcoming from FORBES?

—HOWARD PEAK

Kalamazoo, Mich.

We do.—ED.

Coupon rate

SIR: Harvard's 5½s of 2015 are trading below par ("Hold that rating," *Nov. 23, 1992*).

—ROBERT L. CHRISTENSEN

Chappaqua, N.Y.

Long overdue

SIR: The real question of principle is why a democratic government in Hong Kong is required now, if not long ago under British rule (*Fact and Comment, Jan. 4*). Mr. Patten is practicing the ultimate form of hypocrisy with China.

—DAVID L. RAMSOUR

Senior Vice President

& Chief Economist

Bank of Hawaii

Honolulu, Hawaii

Bushonomics

SIR: Re "Tax strategies for Clintonomics" (*Dec. 7, 1992*). My only regret of Clinton's victory is missing a FORBES "Guide to Bush's tax hikes," a necessary step after twelve years of "borrow and spend" economics.

—CRAIG A. JACOBSON

New York, N.Y.



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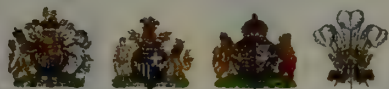
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Fact and Comment

by Malcolm S. Forbes Jr., *Editor-in-Chief*



BOSNIA—CLINTON'S TRUMANESQUE TEST

A MORE IMPORTANT test for us in the post-Cold War world than Iraq is the former Yugoslavia.

Harry Truman decisively established our commitment to contain Soviet communism by refusing to abandon West Berlin in 1948 when Stalin cut off the U.S., British and French sectors of that city from their lifelines to the West. We faced a terrible choice: risk war by trying forcibly to reopen roads to the city or give up West Berlin to the Soviet dictator. Truman ignored advice to abandon Berlin. The U.S. initiated



Berlin and Bosnia: Testing U.S. stamina to make the world safe for democracy.

ed a massive airlift that kept the city alive with food and supplies. Stalin eventually lifted the blockade.

The crisis galvanized the West into creating the North American Treaty Organization, demonstrating

that the forces of evil would not win the West.

Bosnia is the moral equivalent of the 1948-49 Berlin blockade. Through selected bombing and by arming the victims of Serbian aggression, the U.S. could show Europe that the forces of murderous nationalism

can be curbed. The threat of a wider war would recede, and the social fabric of Western Europe would not be strained by the unwanted inflow of countless refugees.

People would be reassured that this new era will not be bloodily pockmarked by regional wars and terrorism, that the U.S. is willing to play the role that only it can play—as the active, guiding force for good in a world that would otherwise revert to age-old habits of conflict and conquest.



GIVE HER A REAL JOB

PRESIDENT CLINTON SHOULD take a cue from his hero John Kennedy and appoint Hillary to the Cabinet or to head up a federal agency. Such a move would be no more shocking than JFK's naming his 35-year-old brother attorney general. It would cut off the inevitable accusations of her manipulating the President and his Administration.

Her chairing an ad hoc panel on health doesn't do the trick. A statutory post would allow Mrs. Clinton's abili-

ties and policies to be judged in public like other government officials'. She would have the standing and legitimacy to offer the President influential advice on everything else, just as Harry Hopkins did for FDR, Bobby Kennedy did for JFK and Jim Baker did for George Bush.

The law barring a president from naming close relatives to government posts (LBJ's slap at Robert Kennedy) should be repealed immediately.

MISREADING THE MARSHALL PLAN

BONN'S ECONOMIC mishandling of reunification with eastern Germany has thrown the Federal Republic into a recession, greatly damaged the economies of neighboring nations and now poses a stark example of how not to help Eastern Europe and the former Soviet Union.

Will the new Administration and Western Europe learn the right lesson? If not, President Clinton is in for much unnecessary foreign policy trouble, and the economies of Europe and America will pay the price.

With East Germany, the Kohl government thought it could repeat the rapid economic resurrection that West

Germany experienced from the rubble of WWII. Bonn remembered that the Marshall Plan had pumped in a lot of money and that by the early 1950s Europe's industrial output had easily topped prewar records. But the success of the Marshall Plan came not from the considerable amount of money shipped over to Europe. Rather, it grew from the impetus the plan gave to currency reform and to economic liberalization, such as lowering trade barriers.

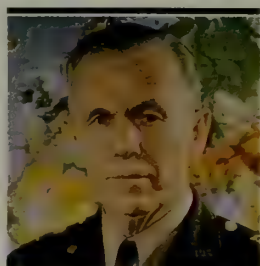
The real hero of the West Germans' impressive postwar economy was the country's finance minister, Ludwig Erhard. In 1948-49 his currency reform made West

German money valuable, stopping inflation dead in its tracks. He swept away many debilitating regulations. His frequent tax cuts spurred the creation of numerous new businesses.

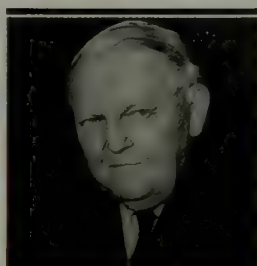
Britain, France and other countries received more money per capita than West Germany, but their economies did not do nearly as well. (Japan's economic rocket didn't take off until after the U.S. had virtually cut off economic aid there. Nor did South Korea and Taiwan begin their impressive success stories until our aid was shut off.)

Inspired by a faulty memory of the Marshall Plan, Germany is spending tens of billions of dollars in the east, but this time there is no miracle. Why?

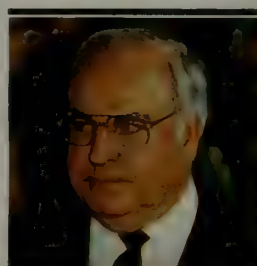
The German economy is riddled with rigid regulations. Erhard is long gone, and taxes are now high. Labor laws are tough. New business formations are low for a country of such wealth. This



UPI/Blackman



UPI/Blackman



Reynolds News/Symon

Marshall, Erhard, Kohl: It was Erhard's spirit of enterprise more than Marshall's money that propelled West Germany's postwar economy.

whole high-tax-cum-elaborate-welfare apparatus was imposed on the east. Without massive subsidies from Bonn, unemployment in eastern Germany would be over 30%. Following the spirit of Erhard, the east should have been largely exempt from all of those rules and levies.

Given its economic hardening of the arteries, Bonn's massive spending has triggered higher prices. Its stiffer taxes have stagnated the economy. The Bundesbank compounded these errors by boosting real interest rates to bone-crushing levels in the name of fighting inflation.

The much ballyhooed agreement among Germany's political parties to cut sacred social spending programs a bit won't overcome Bonn's fundamental mistakes, particularly as taxes are scheduled to go up even more in 1995.

No wonder Europe has tumbled into recession. No wonder voters there are frightened and resentful.

THE MORAL OF THE EAST GERMAN MORASS

is clear. Pouring money into Russia and her neighbors won't work. The Clinton Administration should look again at what made possible Western Europe's and Japan's rapid post-World War II recoveries.

Currency reform. Real money is the first essential for prosperity. Thanks to the Bretton Woods international monetary system, the European Payments Union and other measures, Europe quickly achieved this goal. West Germany, Italy, Japan and others didn't begin booming until their monies were sound. Yet the U.S. and its industrial allies have made no sensible monetary proposals to Moscow.

Taxes. West Germany began systematically reducing its high, wartime taxation in the late 1940s. Its economy quickly responded. Japan enacted major tax cuts in the mid-1950s and didn't suffer a recession for more than 35 years. Britain kept its levies high and became a laggard. Today Russia torments entrepreneurs with horrific taxes. Western experts have largely turned a blind eye.

Human capital. Communism crushed it, not only by

barring free enterprise but also by perverting the human spirit with a system based on lying and cheating. We haven't done enough to emphasize the necessity of a legal system where the law is not the whimsical creature of those in power, where written private contracts are enforceable and where property and personal rights are protected.

Rome wasn't rebuilt in a day. Dismantling or privatizing state companies and eliminating the web of price controls don't have to be achieved overnight. Removing regulatory obstacles for starting new businesses and rubbing out rules that protect existing state-owned ones would suffice in successfully encouraging a more free-enterprise-oriented economy.

Trade. A critical component of the boom of the Fifties and Sixties was the extraordinary expansion of trade and international flows of capital. We can do far more to help create a free-trade area in Eastern Europe and Russia and tie it to us and to Western Europe, thereby fostering political forces whose values coincide with our own.

RESTAURANTS—GO, CONSIDER, STOP

Here is the distilled wisdom of brothers Bob, Kip and Tim, and other FORBES eatery experts Jeff Cunningham and Tom Jones.

● **Sardi's**—234 West 44th St. (Tel: 221-8440). Once celebrated but then disdained, Sardi's is again a place that can easily be recommended to anyone wanting a pleasant meal in the theater district.

● **Manhattan Cafe**—1161 First Ave., near 64th St. (Tel: 888-6556). Big, attractive, club-like. Porterhouse and sirloin, first-rate. Smoked salmon with asparagus in a light vinaigrette, an unusual and delightful combination. Waiters, old-fashioned professionals who know their clientele, menu and wine list.

● **Seryna**—11 East 53rd St. (Tel: 980-9393). Service could top anybody's list of the slowest in town. Much touted cooking on a rock at the table invariably makes the restaurant smoky, and your clothes are apt to

remember the meal longer than you do.

● **Mesa Grill**—102 Fifth Ave., near 16th St. (Tel: 807-7400). Zippy, original and incredibly noisy. Service slightly erratic. The menu includes the most imaginative southwestern-inspired food in town. Particular note worthy are blue corn pancakes with tequila-smoked salmon, mango crème fraîche and caviar.

● **I Tre Merli**—463 West Broadway (Tel: 254-8699). Atmosphere is go-go, location is SoHo, food is uh-oh the experience is no-go.

● **Chin Chin**—216 East 49th St. (Tel: 888-4555). Outstanding Chinese cuisine even though the place looks anything but Chinese. The dumpling assortment is as good as any we've had.

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Other Comments

Let's Hope It's an Omen

BILL CLINTON'S third grade teacher, Msgr. John O'Donnell, claims, "I aroused young Bill Clinton's interest in world history and politics when I taught my course in the Decline and Fall of the Roman Empire." He also recalls, "At the end of the course, Little Willy stood up and said that if he had been emperor, Rome wouldn't have fallen."

—DR. EDWARD YARDENI,
chief economist, C.J. Lawrence

Stand and Deliver

CYRUS VANCE, co-chairman of a Geneva conference on the Bosnia conflict, asked Secretary of State Eagleburger not to meet the President of Bosnia, who [was] visiting the U.S. Here is the president of a small country that has been cruelly attacked, 100,000 of its people killed, 1.5 million driven from their homes, thousands of women raped. And American officials should refuse to meet him?

The Bosnian Muslims, victims of Serbian aggression, are essentially being pressed to accept the results of the aggression, thinly disguised as a political solution. Even if the Bosnian parties accept Vance's [peace] draft, it will be meaningless unless the West

is prepared to enforce the terms. And that means American leadership.

The responsibility will be Bill Clinton's. [He must] make clear to the Serbs that if they do not end their siege of Sarajevo and other military attacks, he will use force. Appeasing aggression exacts too terrible a price.

—ANTHONY LEWIS, *New York Times*

The science of politics is self-delusion.

—PRESIDENT JIMMY CARTER,
on National Public Radio's *Fresh Air with Terry Gross*

This Could Save Your Life

JUST OVER A YEAR AGO I underwent surgery to remove my cancerous prostate gland. Since my operation, an estimated 34,000 men have died of prostate cancer. It is the most common form of cancer among men, exceeded only by lung cancer. Statistically, prostate cancer will afflict 1 out of every 11 American males, and 1 out of every 3 men over the age of 50.

With recent advances in diagnostic and treatment techniques, early detection—and successful treatment—are becoming more and more com-

mon. Prostate problems can be detected with the standard digital rectal exam, with ultrasound testing, with the PSA blood test or with a combination of these tests, including a biopsy.

As a public figure and a prostate cancer survivor, I feel an obligation to alert men to the value of early detection. Sharing my experience with others—as uncomfortable as it may sometimes be—has been a small price to pay knowing that it may help a man, a father, a husband or a brother.

—SENATOR BOB DOLE (R-Kan.),
Washington Post

Hair, Hair

I AM EVEN a little conservative. If someone had a bald spot 20 years ago, I would like him to have that same bald spot now.

—VACLAV HAVEL, *Time*

Mad Hatters

THE TROUBLE WITH our Ambassadors in stations of real importance is that they totally fail to give real information, and seem to think that the real life work of an Ambassador is a kind of glorified pink tea party.

—THEODORE ROOSEVELT, quoted in *Theodore Roosevelt: A Life*, by Nathan Miller

Painting the Town Red

MOSCOW AT NIGHT is like Chicago during the Depression. The men cruise around like swells and the women play at being molls. Already there are legendary moguls: the fellow who shows up in nightclubs in a white sharkskin suit; the fat man who sits in the lobby of the Metropole ostentatiously making calls on his cellular phone.

Communism is dead and Russian businessmen seem to have hit puberty. One rarely sees Volkswagens in Moscow, but there is a Mercedes at every stoplight. There are two parallel Moscovs now, the red ruble Moscow of shortages and queues and the green dollar Moscow of high octane gasoline and cellular phones.

—DAVID BROOKS,
Wall Street Journal



"Nothing personal, Pooh, but we figured you'd fetch a fortune on the open market."

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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*



THE NEW WORLD ORDER—DEFINED

THE PROBLEMS involving Saddam Hussein, a new world order and a world police force are all inextricably intertwined. Much of the discussion of the U.S./British/French air attacks against Hussein's missiles seems to overlook that linkage.

When in 1991 the U.S. destroyed the bulk of Saddam's military capability after he took Kuwait and threatened to invade Saudi Arabia and the United Arab Emirates, it was acting in concert with some 30 allied nations to give bone and sinew to an otherwise unenforceable U.N. resolution. To use President Bush's visionary phrase, we did that to create a "new world order." The usual carping critics of everything we do and don't do immediately responded with their normal skepticism, inquiring as to the "real definition" and other dimensions of a new world order.

Their skepticism and cynicism were quite unfounded. A new world order is a noble and vitally necessary condition for the future. Quite simply, it means that the U.S. and other democratic nations agree to be governed by a rule of law whereby any country breaking that law is treated much as criminals are in each country: They are tried and, if found guilty, punished. The process will be carried out in the same manner that police and courts enforce local laws.

Applying this on a world scale means that we could gain what we had hoped the U.N. would achieve but has not: global law, breaches of which will be punished swiftly and with certainty. In the case of Desert Storm and Iraq, global law was established by the U.N., which condemned Iraq's brutal actions and its attempts to control nearly 60% of the world's known oil reserves.

Theory Put into Action

There is not a shadow of a doubt that both Saddam's invasion of Kuwait and his threats of further lawbreaking required punishment designed to convince him that violations of the law cannot be committed with impunity. He committed crimes against humanity and nature when, without provocation or warning, he sent his tanks and troops into a small neighboring country that had poured out billions of dollars to help him in his war with Iran.

Without the goal of a new world order that President Bush acted to achieve, we would have had the usual number of U.N. resolutions, some futile negotiations and,

ultimately, some feeble compromises that would probably have left Saddam Hussein in control of the Kuwaiti oilfields. Instead, the U.S. fulfilled the responsibilities that our resources and our strength have given us—leading a 30-nation coalition that destroyed Saddam Hussein's air power and the vast majority of his total military capability.

As a parting blow that reminded us what a remorseless criminal he was, Hussein, on his way out of Kuwait, set fire to the country's oilfields, threatening major environmental damage and causing huge losses of vital resources. Again the U.S. and its allies provided the expertise that put out these fires two years ahead of schedule, saving the world from yet another disaster.

Needs of Many Outweigh Criticism from Few

It is all well and good for supercilious critics and writers interested in finding something wrong with every action the U.S. takes to criticize it for "trying to be the world's policeman" and "trying to impose a Pax Americana" on the rest of the world. But these anemic and academic critics would have been the first to criticize if they had had to wait hours in line for the privilege of paying a grossly inflated gasoline price to a victorious Iraq.

So in the closing days of President Bush's Administration, it was entirely necessary and appropriate for the President to initiate similar action, joined this time by Saudi Arabia, which let us use its airfields, Britain and France. First with 110 allied aircraft and later with additional air attacks, we have reminded Saddam Hussein that he is still under severe restraint and will remain so as a result of his many criminal acts.

Military action should always be a last resort, just as punishment is a last resort of local law enforcement. And, in each of these actions made necessary by global law violations, it is essential that as many freedom-loving nations as possible participate, just as one city's fire department does not ignore a fire in another city when the fire-fighting resources of that city are incapable of putting out the blaze.

The rule of law carries with it great responsibilities, but the benefits of acting, and the huge risks of *not* acting to prevent or punish global crimes are so enormous that the price demanded of us in keeping world peace is well worth it.

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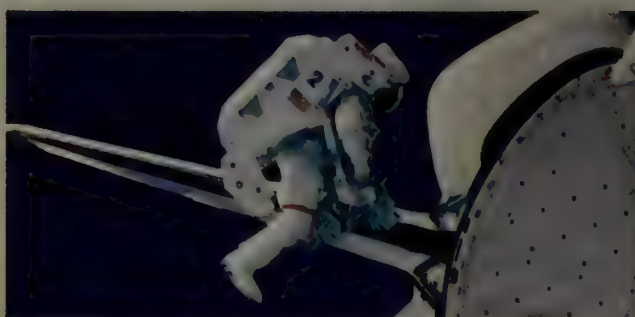
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Today, Rockwell is a leader in its Electronics, Aerospace, Automotive and Graphics markets. A position earned by responding to our customers—no matter how far-reaching their needs may be.



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The cost of the feds' ketchup and other rules

CONSERVATIVELY MEASURED, the cost of federal regulations came to \$542 billion in 1992, or just over 9% of gross domestic product. The trend is definitely up, up and away. Laws already on the books mean the cost will hit at least \$662 billion (in 1991 dollars) by 2000, says Thomas D. Hopkins, the Arthur J. Gosnell professor of economics at Rochester Institute of Technology, who made these calculations. In 1986, Hopkins adds, the bill was \$469 billion.

to over \$110 billion a year (*see story, p. 80*).

Congress is increasingly turning away from spending programs (which are now difficult to finance) and towards passing mandates and regulations, where the cost is hidden. Hopkins reckons federal regulations now cost each household about \$5,700 a year.

How so? Hopkins divides the mass of federal regulations into five areas:

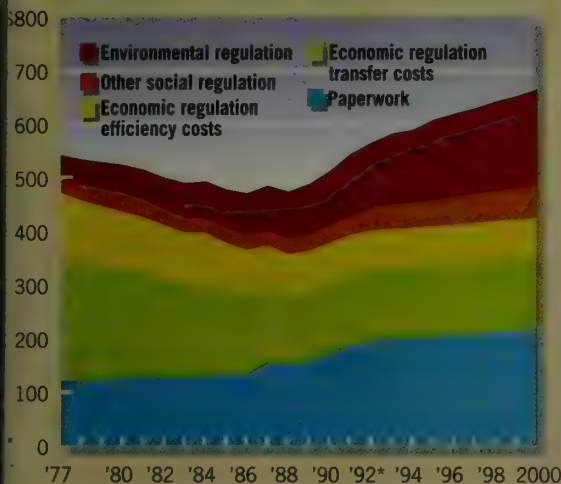
- Environmental laws, such as clean air and water controls. The annual cost of these, says Hopkins, "could easily be half as high again" as his estimate of \$122 billion. The cost of the clean air amendments passed in 1990 will continue to ratchet up after 2000.
- Social regulation, which includes health and safety, plus such open-ended items as affirmative action and the Americans with Disabilities Act, where nobody yet knows just how enormous the cost will be.
- Economic regulation costs come in two parts. Direct regulation has declined since the late 1970s' deregulation of airlines, trucking and communications. Indirect regulation, which transfers costs from producers to consumers, includes such items as "voluntary" controls over the imports of textiles and autos, or price controls over sugar. Entrenched pressure groups make it hard to eliminate these items.

As an example of some of the sillier rules that have been embedded in the nation's book of regulations, Hopkins points to the ketchup rules enforced by the agriculture department. These rules require producers to monitor how runny their ketchup is at least once an hour.

- Paperwork, by far the fastest-rising category of federal regulation, now takes up an estimated 6 billion hours of private-sector work time every year, mostly to comply with the tax laws. (It's idle speculation, but might failed Attorney General candidate Zoë Baird have paid the taxes if doing so hadn't required filling in dozens of forms, state as well as federal, quarter by quarter and at year-end?)

Regulatory ratchet

Annualized regulatory costs (1991 dollars, \$billions)



*Data after 1992 are estimates.

Source: Thomas D. Hopkins, Rochester Institute of Technology

Having dipped in the mid-1980s, thanks to deregulation in 1977 to 1982, the cost of federal regulations is rising fast. The likely trend is for it to rise faster still.

Hopkins says that he is not including the many billions more that arise from state and local government regulations. Nor does he include the indirect costs of regulation—for example, the depressing impact on productivity and investment, or misallocation of resources.

These indirect costs are much more difficult to calculate, but they exist and they are monstrous. In just one specific corner of regulation, affirmative action, FORBES estimates that the total cost, direct and indirect, now comes

Needed: a cost-benefit approach to regulations

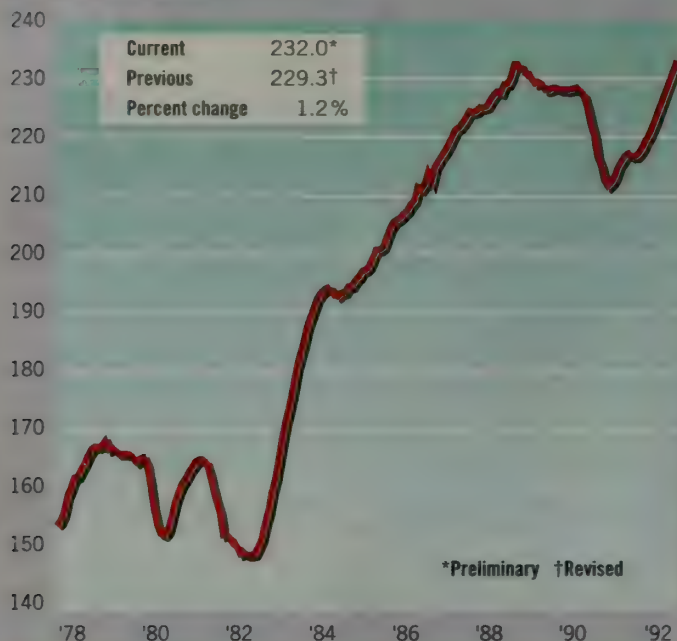
It is a safe bet that the cost will only get worse. On paperwork, for instance, the Clinton Administration promptly scrubbed the Bush Competitiveness Council, which was supposed to restrict useless government paper.

More ominously, the Clinton Administration, aided and abetted by an activist Congress, is already moving to add more costs to the U.S. economy through new regulations. Family leave is but the first of many new regulations. Perhaps the most expensive will be whatever

emerges from First Lady Hillary Clinton's task force on health care.

Are all regulations bad? Of course not. Up to a point, they are part of the price one pays to live in a civilized society. Obviously there have to be some rules that prevent foodstuffs from containing poisons, or that weed out drugs that harm more than they help. The problem is that nobody in government ever asks if the regulations they pass produce sufficient benefits to justify the megabillions they cost.

The Forbes Index (1967=100)



A few components have yet to be reported, so it may be too soon to celebrate, but the Forbes Index—with a 1.2% gain in December—is currently showing its biggest increase in almost six years. One factor behind the jump was the improvement in home building. The trailing 12-month total of housing starts rose 1.2%—to 1.2 million units—from November to December. But keep in mind that government data are often revised. A preliminary 0.4% rise in November retail sales, for example, was subsequently reported as a drop of 0.5%.

Other key rates

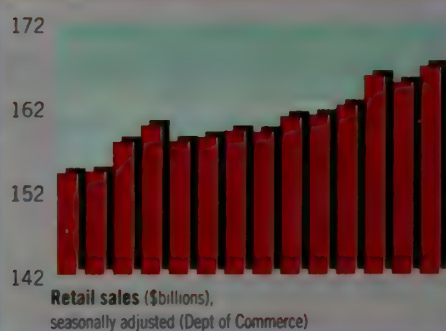
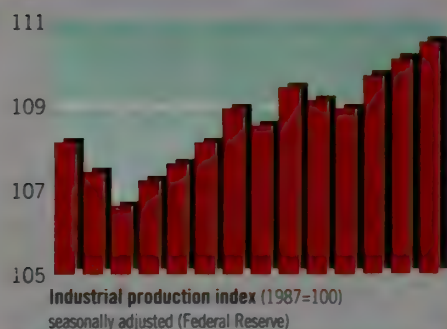
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.0%
Auto sales year to date vs 1992 ¹	Ward's Automotive	-16.4%
Index of leading indicators Nov vs Oct	Dept of Commerce	0.8%
Trade balance 12 months ended Nov 1992	Dept of Commerce	-\$81bil
All-commodity producer price index Dec vs Nov ²	Dept of Labor	-0.2%
GDP 3rd quarter vs 2nd—annualized growth	Dept of Commerce	3.4%
M2 (3-month change)—annualized growth ³	Federal Reserve	3.1%

¹ U.S.-based manufacturers, excludes imports, as of 1/10/93. ² Wholesale goods. ³ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



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Boris Yeltsin does not consider himself bound to deals made by Mikhail Gorbachev—as Harry Oppenheimer and De Beers are learning.

Sorry, Mr. Oppenheimer

By Vladimir Kvint



Boris Yeltsin looks at diamonds in Yakutia

As it begins to sell its biggest diamonds, Russia will need help from Western firms. What will De Beers' role be?

HARRY OPPENHEIMER and his son Nicholas were in Moscow early last September. The Oppenheims control De Beers Consolidated Mines Ltd. and were there for the opening of De Beers' first Moscow office.

De Beers, South Africa's giant mining company and marketer of diamonds, is the world's largest producer of diamonds. Through its Central Selling Organization cartel, De Beers has long controlled the prices and supply of raw diamonds to cutters and polishers around the world. Russia, the world's second-largest producer of diamonds (after South Africa), is important to De Beers.

According to top Russian officials, the Oppenheims were scheduled to meet with Boris Yeltsin, the prime minister and other top Russian officials, but at the last minute the appointments were canceled. The snub was apparently deliberate: It was a Russian way of telling De Beers it wanted more money for its diamonds than it had gotten in the past. (De Beers' spokeswoman denies appointments were scheduled but confirms that no top-level meetings took place.)

Not that De Beers needed reminding that it needs the Russians. Angola, one of the world's largest diamond

producers, virtually stopped doing business with the Central Selling Organization in the late 1980s. De Beers' operatives have been scrambling to avoid losing the vital Russian diamond production.

In 1990 De Beers signed a five-year deal with Mikhail Gorbachev's government promising De Beers 95% of all Russia's raw diamond production. De Beers agreed to pay \$5 billion over the life of the deal.

But Gorbachev is out, and Boris Yeltsin apparently wants more. Under the Gorbachev agreement, the Russians receive from De Beers an average price of approximately \$68 per carat. Yeltsin figures he can do better. He knows that last year De Beers paid \$205 per carat for uncut diamonds it purchased directly from Yakutia, the eastern Siberian region which accounts for most of Russia's diamond reserves and whose mines produce 98% of Russia's diamonds. The Yakutian diamonds were of higher quality, but not three times better.

Yeltsin has an out. De Beers' 1990 deal cut with Gorbachev says only that Russia must sell 95% of its *uncut* diamonds to De Beers. It says nothing of cut and polished stones. What Russia will probably now do is start cutting and polishing more diamonds rather than delivering them raw to De Beers.

Russia already has several diamond cutting and polishing plants. Three of them—in Smolensk, Moscow and the city of Barnaul, in western Siberia—have modern equipment and experienced cutters. Aware of the possibilities, several small Japanese, Israeli, Dutch and American firms are trying to create joint ventures with the Rus-

ian cutting plants.

If the Russians are playing rough with De Beers, it's because they badly need foreign exchange. With their gold holdings dwindled, diamonds (together with platinum) remain Russia's major quick potential source of more hard currency. Squeezing more money out of De Beers is one way to get it. Adding value through cutting and polishing is another.

From the end of World War II until early 1990, the Soviet Union sold almost no diamonds in the 5-to-10-carat range, and no diamonds larger than 10 carats. When they were found, such treasures were kept in the Russian State Diamond Fund. Worth billions, the trove includes such mammoth stones as the 232-carat "Star of Yakutia" and the 332-carat "XXVI Congress of the CPSU."

As it begins to sell off its big stones, Russia will need to cooperate with Westerners. That's because the market is highly specialized and customers want their diamonds rough or cut and polished to their specifications.

On the prowl for large uncut stones is Maurice Tempelman. Working out of Paris and New York, Tempelman lines up a buyer for a large stone, locates the stone in Russia, then gives the Russians the designs for cutting and polishing the stone.

With most uncut stones, however, De Beers is still in control. Last year Yeltsin's government signed an agreement with officials from Yakutia (now Sakha). It says employees and managers of Yakutia's diamond mines and factories will retain ownership of 23% of the proceeds; Sakha/Yakutia's regional government and local authorities get 40%; the Russian government, and government funds, such as the armed forces' social security fund, get 37%. De Beers figures it will end up as marketing agent for all three groups.

To further strengthen ties with the local government, De Beers agreed to help build a diamond cutting plant in Sakha called Polar Star.

Clearly De Beers is doing everything in its power to retain control over Russia's diamond output. But that big X in President Yeltsin's appointment book suggests that the Russians are going to be driving increasingly hard bargains. ■

Why is Robert Bass so eager to buy Macmillan from the Robert Maxwell estate?

Golden books

By Howard Rudnitsky

TEXAS BILLIONAIRE Robert Bass offered \$2.1 billion in 1988 for publisher Macmillan Inc. The late Robert Maxwell topped him with an offer of \$2.6 billion.

Bass was lucky to lose, because last November he had a second shot at the prize at a much reduced price. With Maxwell's empire in liquidation, a Bass-led group offered \$1.2 billion for Macmillan and *Official Airline Guides*. For the latter alone Maxwell had paid \$750 million.

J.P. Morgan & Co., Maxwell Communications Corp.'s receiver, said the offer was too little, but the talks are continuing and there isn't any doubt that Bass and his well-heeled investors, or perhaps another publisher, could buy Macmillan for less than was offered in 1988.

True, Macmillan's business had deteriorated under Maxwell and true, some assets had been sold, but a publishing jewel remains. Macmillan owns 50% of Macmillan/McGraw-Hill School Publishing Co., a \$533 million (1991 revenues) elementary through high school textbook publisher, the largest in the country. This joint venture was formed in 1989 from a combination of Macmillan's and McGraw-Hill's elementary and high school book operations. The joint venture reported profits for 1991 of \$51 million—nearly 10 cents on the revenue dollar.

Profits for 1992 will rise only modestly, but 1993 should be a lot better. A number of states, including Texas and Florida, will recommend major new

textbook purchases. A Texas state committee has recommended that the state legislature approve \$280 million worth of book purchases for the school years starting September 1993 and 1994.

Macmillan/McGraw-Hill was among the major publishers whose texts were approved in Texas. Other houses include Silver Burdett & Ginn (Paramount Communications Inc.), Houghton Mifflin, Harcourt Brace Jovanovich (General Cinema Corp.) and ScottForesman (News Corp.).

In 1995 there will be another surge in state purchases of textbooks, including key states like California (12% of all 42 million U.S. elementary through high school enrollments) and Florida.



Student in a Harvard library

A coming baby boomer boost for college texts.

History à la carte

PUBLISHING textbooks may be a profitable business, but it requires constant toadying to the forces of political correctness. Robert Lerner, assistant director of the Center for the Study of Social and Political Change at Smith College, gives an eye-opening example:

By the early 1980s American feminists were complaining loudly that there weren't enough women being adequately depicted in textbooks on the American Revolutionary War. "So they took a woman, Sybil Ludington, who helped warn the Connecticut state militia of an impending British attack on Danbury," says Lerner. As a result, Sybil Ludington became a major figure in the 1985 high school text *America: Its People and Its Values* (Harcourt Brace Jovanovich). Says Lerner: "She is portrayed in the textbook as being as important as Paul Revere. No objective historian believes that."

What historians believe doesn't much matter. Bowing to pressure groups does. Harriet Tubman was an escaped slave active in the pre-Civil War underground railway. Tubman was, by any standard, a real heroine and an important symbol, but modern texts have so inflated her role, says Lerner, that, "In a 1987 study of thousands of 17-year-olds, it was found that far more students knew of Harriet Tubman's role in the Civil War than that Lincoln authored the Emancipation Proclamation."

In 1988 education author Harriet Tyson wrote *A*

Conspiracy of Good Intentions: America's Textbook Fiasco. It tells a chilling tale. "California," says Tyson, "has a special [textbook] 'compliance commission' that checks for compliance with all the social issues that are being pursued by special interest groups including feminists, a black power advocate, environmentalists, family values advocates and the like. The compliance commission counted how many female lead characters there are in the textbook, how many blacks and Chicanos appear in pictures, and so on."

If the head counts didn't come out to their liking, the textbook either had to be rewritten or it would be rejected. Call it history à la carte.

A much publicized example concerned Pat Zettner's story, *A Perfect Day for Ice Cream*. Among other things, the original story displeased the nutritionally correct, who decided ice cream is bad for kids. When it was finally published in a textbook for 13-year-olds under the title *A Perfect Day*, the author scarcely recognized the story.

The self-appointed censors come from all corners. The political right objects to anything that might seem even remotely disparaging to religion. The political left is trying to remake American society to some ideal image. Environmental extremists seek to foist a kind of religious pantheism on young minds. In the process, Johnnie's and Jane's education suffers.

—H.R. ■

For the next few years demographic trends point to a rise in textbook sales in the U.S., where school enrollment will grow 1% a year, compared with 0.8% over the last five years.

Even if Clinton's election doesn't bring additional federal aid to public education, local school budgets are still rising. A recent forecast from Veronis, Suhler & Associates predicts spending on elementary and high school books will grow 5% a year through 1996, to \$2.7 billion.

A bit further down the road, in the second half of the 1990s, the \$2.7 billion college book market should receive a boost when the offspring of baby boomers flood into college. Successful college books carry high profit margins, what with prices at \$35 to \$40 or more; who would be so crass as to haggle over price when a college diploma is at stake? And publishers' costs are low on college texts since they often have a single author.

By contrast, large teams of editors, academics and educational bureaucrats are required to produce a major politically correct (*see box*) elementary textbook. It is not unusual for a major elementary text to take four to five years in preparation and to cost over \$50 million to launch.

Once successful, a textbook becomes a rich cash cow. The allure of educational publishing led General Cinema's shrewd chairman, Richard Smith, to buy Harcourt Brace in 1991. Smith recently told a group of New York securities analysts that he had spent 30 months looking at consumer goods and services before deciding that book publishing would generate what he wanted: steadily growing high-quality earnings.

Houghton Mifflin, which managed to ward off a hostile takeover attempt in 1989, is one of the few remaining large publicly traded textbook publishing independents. Its 1992 net profits were only \$26.8 million before special charges. But its cash flow was recently estimated at \$69 million, and it had about \$70 million in cash. With \$455 million in overall sales, Houghton Mifflin is a prize a large company would love to land, but the company has made it clear it is not for sale.

So now you know why Robert Bass and other bidders are so persistent in the quest for Macmillan. ■

The soap opera at American Express has been the U.S. business media's equivalent of Princess Di and Prince Charles. But, seriously, can Amex be turned around?

Lots of work to do

By Thomas Jaffe

THE PALACE COUP has ended. James Robinson III still sits, though somewhat uneasily, in the chairman's office at American Express, but with a new and potentially powerful prime minister, Harvey Golub, at his side. So much for personalities. What's next for the company and its shareholders?

For an informed opinion, FORBES went to see Walter Fitzgerald, 58, a longtime follower of American Express, now a money manager and broker at RAS Securities.

Were you surprised the board kept Robinson as chairman and tapped him to run Shearson Lehman?

Fitzgerald: Not really. Somebody has to knock heads together at Shearson. Can Robinson do it? He's certainly Machiavellian enough. As a practical matter, Howard Clark Jr. [Shearson's former chief executive] did not do the job. That's why he's being replaced. It's as simple as that.

What ails American Express?

Shearson. If you adjust Shearson's profits last year by adding back to pretax income the Computervision writeoff, one-time legal expenses and the real estate writedowns, you find that it earned just about 10% on average equity—in a year when it wasn't unusual for securities firms to earn 20% to 30% on average equity. The cost structure at Shearson is completely out of whack with revenues.

Earning 20% on average equity, last year Shearson should have contributed \$500 million or \$600 million to American Express' bottom line.

That would have added nearly \$1 a share to Amex's earnings. What's to be done?

Cut the cost structure. Trim staff. Close branch offices. Get out of certain businesses. For example, other securities firms may be making lots

of money from derivatives, but Shearson isn't.

Why doesn't American Express spin off Shearson now?

As a stand-alone company, Shearson couldn't get the ratings a company needs to borrow a lot of money on a day-to-day basis. Without American Express, you'd have chaos over there.

If Robinson is successful, then two or three years from now American Express will probably try to take Shearson public or sell it.

Let's talk about American Express' other businesses.

Travel Related Services has not returned to its previous levels of profitability in the Eighties and never will because of the competitive situation today. However, if you adjust its 1992 results for one-time events, and fully



Harvey Golub and James Robinson III of American Express

The boss got a reprieve; his protégé, a promotion. Now they must deliver.

tax those results at 34%, then last year the business earned just under 14% on average equity. Not terrific. This is an operation that probably can earn 16% to 17%. But significant progress has been made. Harvey Golub has done a good job there.

How about IDS Financial Services?

Last year IDS made \$408 million, pretax, versus \$314 million the year before, a 30% increase. It's in the right business, and is doing exactly what it should be—Golub did a decent job there as well.

The investment in First Data Corp., which does back-office and medical processing and billing?

First Data Corp. had a terrific 1992, will have a terrific 1993, and will grow at 20% for the next several years. At the current valuation of First Data, American Express probably has a \$1.5 billion unrealized profit in its holding. At some point it will sell its 54% stake for a couple billion dollars.

Amex stock is still in the dumps. What could it be worth?

At some point in the next two to three years I think these shares will trade at 40 to 50. But there's a lot of work to be done at Shearson. Have all the writeoffs been taken? I haven't got the foggiest notion. I do know the cost structure is too high.

Are you buying the stock now?

I would like the dust to settle first. I would like to get a better feel about Robinson's program at Shearson.

So what are you telling your clients?

To trade the stock. All this media silliness about Mr. Robinson's personality could take the stock down to 21 or 22. In that case, why not buy it?

What is important is, can Shearson be turned around? I think it can be, but only by a very strong chief executive. They've picked Robinson. Can he do it? I don't know. If he can't, American Express has a major problem. But it has nothing to do with personalities.

For too long it was business as usual at United Technologies' huge jet engine division. Hard times and tough competitors are forcing a tradition-bound company to change its ways.

Welcome to the real world

By James R. Norman

A CRISIS ATMOSPHERE prevails these days at the Hartford, Conn. headquarters of United Technologies Corp. as layoff follows layoff at the huge Pratt & Whitney jet engine division. Now another \$700 million writeoff for 1992—mostly for Pratt & Whitney—has obliterated UTC's profits for the second straight year.

For Chairman Robert Daniell, this is a stunning reversal from the heady, profitable years of market dominance by Pratt & Whitney, when its JT8D engines powered virtually every 727, DC-9 and early 737. As recently as 1990, Pratt & Whitney had contributed two-thirds of UTC's operating profit on just one-third of sales. After the writeoff, it is now in the red.

UTC's Carrier air conditioners, Otis elevators, UT auto parts and Sikorsky helicopters are doing just fine, but with less cash flowing in from the jet engine business, UTC is an eight-cylinder engine running on four cylinders.

Chairman Daniell is a cautious engineer, but he has tackled the problems at Pratt & Whitney with grim determination. Recognizing—perhaps belatedly—the importance of controlling costs, Daniell last year handed the UTC president's job to George David, a brusque cost-cutter credited with reviving Otis and Carrier. UTC then took a \$1.2 billion writeoff—22% of its net worth—with half of that at Pratt. But

it wasn't enough.

So Daniell shuffled Pratt managers last fall, and he and David brought in from Carrier turnaround veteran Karl Krapek to head the unit. Karl Krapek sits on a very hot seat. Slimming Pratt & Whitney in line with dwindling orders for commercial jet engines has



Testing a new Pratt & Whitney engine
Coping with dwindling aircraft orders.

proved a tough task.

The stodgy but technically superb and fiercely proud engineering corps based in East Hartford has a knack for fending off corporate interference. "We'd send in young M.B.A.s and they'd get ground up by the stultifying bureaucracy," David frankly admits. "I don't think Pratt has run itself well for decades. It hasn't paid atten-

on to costs, productivity or responsiveness."

How big is the problem? For instance: Pratt & Whitney has 10 million square feet of manufacturing space—mostly in high-cost Connecticut. That's 25% more space than rival General Electric has for roughly the same volume of engines. At its peak in 1990 Pratt employed 50,000 workers, versus fewer than 40,000 at General Electric Aircraft Engines, which got the jump on Pratt with its hugely successful CFM56 engine for the later version of the Boeing 737.

Right now Pratt & Whitney's work force is down to 40,000, with another 3,200 cuts just announced. Krapek's goal is to be down to 30,000 workers—GE's current level—by the end of next year.

"Pratt had never been forced to be trim and fit by the marketplace," says Daniell. "Now it is exposed for the first time to the ravages of cost-based rivals who had to scramble in order to survive."

The scrambling isn't over. From a heady production rate of more than 800

planes in 1991, commercial airframe makers Boeing, Airbus and McDonnell Douglas saw their new-order rate last year shrivel to about 300 planes, net of cancellations. Every plane not produced means at least two fewer engines. Analyst Tassos Philippakos at Moody's predicts that average deliveries will fall to 500 planes a year until the end of the decade—down nearly 40% from the 1991 level.

Military business is even worse. Pratt won the engine contract on the new F-22 fighter. Even so, Pratt will probably build only about 100 military engines a year, versus the 230 or so F100s it turned out in 1990 for the F-16 and F-15 fighters. "Order rates," Daniell glumly concedes, "are not coming back any time soon."

Meanwhile, third-place Rolls-Royce is determined to buy its way



UTC Chairman Robert Daniell (left) and President George David
After fixing Otis and Carrier, time to tackle P&W's problems.

back to 30% of the engine market, from about 20%, targeting both GE and Pratt, which have about 40% each. The competition will be brutal. Since most planes are now designed to accommodate engines from various makers, price is crucial.

New rivalry is emerging also in the parts business from remanufacturers and the airlines' own repair shops. Like giving away razors to sell blades, engine makers earn little or nothing on engine sales, but make it up on the spare parts—or used to. From \$175 million a month, sales of commercial spares have plunged by about half in recent months. This really hurts; spares are a business in which operating profits can run to 65% of revenues.

But if Daniell, David and Krapek can bring costs in line with the lower revenues, all is not bleak at UTC. Cash

flow should improve as R&D spending on upgrades of Pratt's big PW4000 engine winds down. And if there are no further big writeoffs, UTC could earn \$5 a share in 1993, what with its other divisions doing well. At Pratt & Whitney R&D and capital outlays for powerful new engines, recently running at \$500 million a year, are on the decline.

But the UTC executive team doesn't have forever. Kidder, Peabody analyst Michael Lauer figures that at current market prices—less than \$50 a share—UTC sells for about what Carrier and Otis alone are worth, with Sikorsky and P&W thrown in for free. Investors these days are mighty impatient with management with underperforming assets. Ask Robert Stempel. Ask John Akers. Ask Robert Daniell.

Newspapering has almost always been a mostly local business. Though he runs a national company, Tribune Co.'s Charles Brumback runs it in an intensely local way.

Hometown coverage

By Christopher Palmeri

IN A NEW BOOK, *Read All About It!*, former *Chicago Tribune* editor James Squires lashes out against corporate publishers who put profits before Pulitzers. Considering some of the tripe that has won Pulitzers, this isn't quite the put-down Squires intends it to be.

Squires also paints a harsh picture

of current Tribune Co. Chairman Charles Brumback, who comes across as a tightfisted accountant heartlessly crushing Chicago's newspaper unions. Considering what the unions have done to newspapers, that's more a compliment than an insult.

In the old days the *Chicago Tribune*

proclaimed itself the World's Greatest Newspaper on its own front page. Nobody except a few local boosters and the eccentric publisher Robert McCormick bought that claim. Anyhow, Brumback isn't interested in such boasts. "The future of newspapering may not be putting ink on paper," says Brumback. "If we don't figure out what that future is, somebody else will."

Gone are the glory days when the local newspaper was the main medium of mass communication and when many people read two, even three, papers. As Brumback is well aware, that ended with TV and with changing lifestyles. Young people are not reading newspapers, advertisers have many other ways of reaching local consumers, and the old-fashioned newspaper's one-size-fits-all approach to coverage no longer fits a more fragmented society.

From his office high up in Chicago's gothic Tribune Tower, Brumback sees all this and has been fashioning a strategy to keep his company prospering in what may develop into a post-newspaper age in which the old broadsheets survive but play a dwindling role.

Now 64, this graduate of Culver Military Academy, who earned a Bronze Star in Korea, became chief executive of the \$2.1 billion (revenues) Chicago Tribune Co. two years ago. Most newspaper companies have solved the problem of slow local growth by buying family-owned newspapers and thus expanding geographically. Brumback's strategy calls for expansion in depth rather than in breadth.

The Tribune Co. has strong posi-



Tribune Chairman Charles Brumback

"The future of newspapering might not be putting ink on paper. If we don't find out what that future is, somebody else will."

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tions in good markets, all of which continue to offer expansion potential. Tribune Co. owns seven dailies in hot cities like Orlando and Fort Lauderdale. It dominates Chicago. It owns seven independent television stations in major markets such as New York, Chicago and Los Angeles. And it owns baseball's Chicago Cubs.

Brumback told his executives to spend money creating targeted publications and programming to penetrate the areas where they were already strong. Tribune's Fort Lauderdale paper created two colorful weekly tabloids targeting non-newspaper readers, namely young people and Hispanics. One of them, *X&S*, a free weekly entertainment guide, was profitable in its first year. *iExito!* ("success" in Spanish) prints its business section in English because that's the language in which Hispanics feel most comfortable reading about business news.

The *Chicago Tribune* has launched two much-talked-about weekly sections: Kid News and WomaNews, whose features aimed at working women are now syndicated in 50 other newspapers. The *Tribune* has also been a leader in following its readers out to the suburbs. Five separate daily sections cover local communities, and the paper has more reporters covering local news in the suburbs than they do downtown.

Emphasizing local markets has certainly worked in broadcasting. Tribune's stock took a dive along with other operators of independent stations when Rupert Murdoch announced the creation of the Fox Network seven years ago. Independents, the thinking went, would never be able to compete with another television network.

The Fox Network did well, but so did many of the independents. Last year Tribune's stations brought \$550 million in revenues. That's more than the seven Fox-owned stations or CBS' seven owned-and-operated stations brought in last year. The Tribune stations use a strategy similar to the newspapers': Go local and stay local. They emphasize local news, sports and, to a large extent, Tribune-created programming. Tribune's Los Angeles station sticks to local news, traf-

fic and Hollywood gossip on its new morning show and gets higher ratings than the networks. That's right, better ratings than *The Today Show* and *Good Morning America*.

In Chicago, Tribune's independent WGN brings in more revenue than any of the three network-affiliated stations. More than 40% of WGN's programming is produced internally. This includes talk shows like *Geraldo* and *The Joan Rivers Show*, creations of Tribune Entertainment, the company's syndication arm. WGN also broadcasts more home-team sports, including the Cubs, the White Sox and the Bulls, than any other television station in America.



A newspaper war rages in Chicago

Charles Brumback lost a skirmish, but he is better positioned for the battle ahead.

Brumback clearly would like more of such local TV. Last year he picked up 75% of a non-network Philadelphia television station, WPHL, valuing it at just \$40 million, or less than eight times cash flow. More broadcast acquisitions are likely to follow. Expect all of them to be heavily local in their programming.

Last month the company launched ChicagoLand Television, a \$10 million experiment to deliver 24-hour local news on a cable TV channel. Brumback has also teamed up with America Online, a Prodigy-like interactive computer service, to deliver the *Chicago Tribune* via computer. Tribune Co.'s \$5 million investment in the publicly held firm is now worth \$14 million. The computer service

may never replace the printing press, but again it might. "It's research and development," says Brumback of his electronic ventures. "I'm prepared to lose it all."

In areas where Brumback can't be strong, he'd rather not fight. In early 1991 he sold the loss-plagued New York *Daily News*. This month the company is selling one-third of the stock in Quno Corp., a Canadian newsprint subsidiary, whose cyclical-ity has dragged down earnings.

In Chicago, Brumback recently seemed to have lost a skirmish. The *Trib's* daily competitor, the *Sun-Times*, has been bragging about winning a recent newspaper war. After the *Tribune* raised its newsstand price from 35 cents to 50 in September, the scrappy *Sun-Times* held its price at 35 cents. The *Sun-Times* now says it has grabbed the largest circulation gain any Chicago paper has managed in 15 years. However, the *Trib* is still well ahead in circulation.

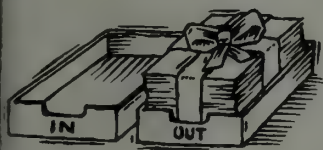
The *Sun-Times'* gains won't last, insists Brumback. In time, the *Sun-Times* will have little choice but to raise its price, too, to cover an increase in the price of newsprint, of maybe 12%, that looms over the newspaper business. Then, says Brumback, the *Trib* will get back what it has lost.

Brumback's strategy has won favor on Wall Street. Goldman, Sachs analyst Eric Philo says he expects Tribune's earnings to rebound this year nearly 40%, to \$2.70 per share. The numbers certainly look good. The Tribune Co. averaged 17.5% in return on equity over the last five years, including 1992 estimates, according to Value Line. The industry average is 11.6%. In terms of operating margin, Tribune averaged 20.4%, versus 18.4% for the industry over the same time period, same source.

Pondering ex-editor James Squires' critique of him, Brumback says: "We'd all love to return to the days of swashbuckling publishers exposing political shenanigans. But Jim's vision is through a rearview mirror." Looking through the windshield, Charlie Brumback sees media that are still intensely local but no longer in the old ways.

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Stiff upper lip

By Joel Millman



Bolivian Power's Kenneth Lyons

A three-year contract stretched to nearly four decades.

KENNETH LYONS may be the last of a once-vibrant breed: the British jungle entrepreneur. Three months after finishing his engineering studies at Widnes Technical College in Lancashire in 1956, Lyons, then 22, took off for Bolivia, where he was hired as a contract engineer with Boliviana de Energia Electrica S.A. It took him four days to get there—via Africa to Brazil, Brazil to Buenos Aires, Buenos Aires to 15,000 feet up in the Andes.

"I went on a three-year contract," Lyons says with a smile. Two years in, he married a Bolivian woman and decided to stay a while. He's still there and is now ending a glorious career.

Bolivian Power, as it's known in English, served just 35,000 of the nearly 150,000 homes in La Paz when Lyons started and made much of its money supplying power to the big mining companies nearby.

Three decades later, Ken Lyons is still lighting La Paz. His Bolivian Power (1992 revenues, \$36 million) is probably the only foreign-owned utility in Latin America to escape nationalization. "There must have been a dozen attempts at expropriation," says Lyons, with an understated chuckle. "But with so many changes in government, no one was ever in power long enough."

In the past 40 years Bolivia has had at least 20 coups; only a handful of its presidents served out their terms.

Eduardo Gamarra, a political scientist at Florida International University who grew up in La Paz, says Bolivian Power stayed private largely because management did such a good job that the pols were afraid to touch it. "Some politicians in La Paz always opposed nationalization," he says. "They thought it would mean the cost of electricity would increase."

Lyons, who took over day-to-day operations at Bolivian Power in 1982, was careful to stay one step ahead of growing demand, investing in new plants every couple of years and constantly upgrading his existing ones. Bolivian Power's 85-year-old Achaichala hydroelectric plant in La Paz is still operating at 100% capacity. Fifteen thousand feet above sea level, its Zongo Valley system is made up of eight generating plants, some dating back to the 1930s.

Lyons' meticulous care for the

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Bolivian Power

plants he inherited makes sense. While hydropowered plants are more expensive to install than fossil fuel plants, they are much cheaper to run. By squeezing eight decades of service out of some plants, Bolivian Power has been able to keep rates among the cheapest on the continent—less than 5 cents per kilowatt-hour. “No other power generator in Latin America sells electricity for less,” boasts Lyons, “and still makes money.”

But Lyons has had to contend with more than constant changes in government. His bosses have changed almost as often and just as erratically.

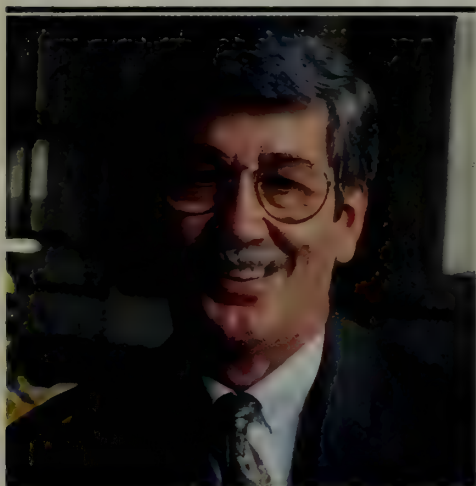


Photo: Azur/SABA

Heir apparent Roger Dupuis
Lighting La Paz.

Bolivian Power's first parent, Canadian International Power, was swallowed by conglomerator Morley Thompson's Baldwin-United Corp. When Baldwin-United filed for bankruptcy in 1983, control of the utility passed into the hands of U.S. insurance giant Leucadia National. Leucadia got it when it bought controlling interest in Baldwin-United. Leucadia continues to hold about 50% of Bolivian Power's 3 million shares. The rest is traded on Nasdaq.

Lyons has never cared who owned the company. “Remember that communication between Bolivia and the outside has only become part of life in the past five or six years,” he says, savoring the fact that a succession of owners have left him alone.

And a good thing, because this isn't the kind of business you can run from London or New York. There was Bolivian hyperinflation to contend with, sometimes roaring along at

25,000% a year. “Our consumers had 20 or 40 days to pay,” says Roland Gibson, Bolivian Power's financial vice president. “So with inflation at that rate, the payments were almost worthless when we got them.”

Close to closing its doors in 1984, Bolivian Power survived only because its biggest customer—the state mining monopoly, Comibol—paid its bill in dollars, not pesos. “The mines got us through,” Lyons says. “That was our life belt.”

Right now it is prosperity, not hyperinflation, that Bolivian Power must cope with. Higher metals prices and falling inflation have combined to make La Paz one of Latin America's fastest-growing cities. Bolivian Power now serves over 150,000 homes, and with demand for electricity growing by about 6% a year, the company faces the daunting task of keeping up with it. Over the next five years the company will spend \$120 million to expand four plants and build two new ones in the Zongo Valley. To raise the money, the currently debt-free company will have to sell bonds—and possibly make an equity offering. With the government's recently having renewed Bolivian Power's contract for another 40 years, it should have no trouble raising the money.

The company's revenues have increased 138% in the past five years, and earnings per share have nearly doubled, from \$1.07 to an expected \$2 this year.

All this has made the little company quite attractive to foreigners wanting a stake in Latin America. Bolivian Power's shares, at a recent 14, have doubled over the last two years. That price, however, is only about half book value and less than five times the \$3 a share analyst Barry Sahgal of Ladenburg, Thalmann & Co. thinks the company could earn this year. The stock yields a respectable 4.6%.

Having steered Bolivian Power through turbulent times, Ken Lyons, 59, is handing over the reins to his right-hand man, Roger Dupuis. He says he's going back to Cheltenham in southwest England to plant roses, do some reading and reacquaint himself with British life. His own modest verdict on his enviable career: “It's such a small company, you know, but we met our objectives.”

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A lot of businesses are picky about their suppliers. National Re is extremely picky about its clients. That's one reason its earnings are headed upward.

Know your customer

By Carolyn T. Geer

WHEN TIMES are tough, you try to broaden your customer base, right? Not National Reinsurance Corp. When hurricanes rage and price wars loom, National Re remains fussy about which companies it will accept as customers. Out of more than 3,000 property/casualty insurers in the U.S., only 300 make National Re's list of desirable clients. It is now doing business with a quarter of those.

Stamford, Conn.-based National Re makes its living by absorbing some of the risks undertaken by small property/casualty insurers. This explains its pickiness. "You can't eat off a dead horse," says William Warren, the company's chief executive. "We learned a long time ago that there's no way we can make money over the long haul reinsuring a company that doesn't run its business well." Since it is sharing risks, National Re wants to do business only with companies that take sensible risks for a sensible price.

Here's how the business works. Say the owner of a grocery store buys a \$5 million liability policy to insure against the cost of a lawsuit should a customer slip on an orange peel. The grocer's insurer in turn becomes a customer of National Re. For a price, National Re agrees to shoulder any losses exceeding the first \$500,000 on that policy. Obviously, Warren wants to reinsure grocery stores that keep the aisles clean.

Top-performing Cincinnati Financial Corp. (FORBES, Jan. 4) has been a National Re client for years. National Re also will share risks with new companies if it likes their looks. Says Warren: "We like to do business with



National Re's William Warren

"You can't eat off a dead horse."

people who want to build businesses." And who own a piece of them. "They do a better job when their own money is at risk," he says.

You could say the same about Warren and his company. Warren, 56, has been running National Re since 1980, when it was a subsidiary of Continental Corp. But he has been a significant shareholder only since 1990, when a group affiliated with billionaire Robert Bass bought the firm. Warren got 213,000 shares of insider stock at \$4.32 each.

Following a public offering a year ago at 23, National Re shares have climbed to a recent 32. Analysts are expecting earnings to climb from \$18 million in 1992 (excluding capital gains and a one-time charge) to \$38 million, or \$2.25 a share, in 1993.

When Warren and his aides like a company, they love it. They underwrite, on average, 75% of a client's reinsurance business. This is good for the clients, who are often smallish

companies with limited capital. It puts Warren in a partner-like relationship with his customers, with his fortunes intertwined with theirs.

Los Angeles area-based Crusader Insurance Co., a client since 1985, suffered \$21 million in losses from last year's looting, saddling Warren with a \$5 million loss. Legally, this was Warren's only obligation to Crusader. Nonetheless, National Re lent Crusader an additional \$2 million to help rebuild its surplus. Further, it bought \$800,000 worth of shares of Crusader's parent, Unico American Corp., at market prices. (Unico's chairman kicked in \$36,000, too.)

There was nothing out of the ordinary in going the extra mile for a customer. "If their losses were coming from bad business practices, we wouldn't have done it," explains Warren, "but [the looting] was a discrete event. They're a good account, and they needed help."

Warren learned about pricing insurance and picking partners the hard way. When he was promoted to head of National Re, he discovered that the firm, notwithstanding a top rating from A.M. Best, was underreserved by at least \$75 million. Why? The company had been underpricing its product. "We were damn near terminally ill," says Warren.

Warren prescribed bitter medicine. He threw out unprofitable business, dropping premium volume from \$185 million in 1979 to \$75 million in 1982. "We feel you cannot stay in the game and compete on price," explains Warren. From there he began to rebuild, but slowly. Last year's premium revenue was \$250 million.

Following a year in which primary insurers took a beating from Hurricane Andrew, demand for reinsurance is strong, yet many reinsurers are in no financial position to write more business. National Re is different. Bolstered by the 1992 equity offering, National Re's capital surplus will support a lot of new business. But William Warren is taking his time and picking his shots carefully. He is taking on annual premiums equal to only 80% of National Re's capital surplus, much less than the 150% it could comfortably take in. It's a reinsurer's market, and Warren intends to make the best of it.

The yen is going to make a big move against the dollar in the next few months, but I'm not yet ready to say which way it will move or how far.

Too soon to call

BY ANDREW J. KRIEGER



Andrew J. Krieger is managing director of KB Currency Advisors, Inc., a foreign exchange investment management and hedging/advisory firm based in Englewood Cliffs, N.J. He is author of *The Money Bazaar*.

I AM STILL cautiously bullish on the dollar versus the deutsche mark this year (see my column, Feb. 1). Germany's cyclical weakness contrasts sharply with the modest growth that the U.S.' economy is currently experiencing. Divergences in their respective economies will likely lead to a continued narrowing of interest rate differentials, which in turn is widely anticipated to fuel a significant dollar rally. This is the consensus view, and though I rarely follow consensus views it looks correct in this instance.

The situation vis-à-vis the dollar-yen exchange rate is much less clear, however. Japanese industrial production has been declining and inventories are rising relative to sales. Job opportunities there are narrowing, and there has been a reduction in overtime. Households have displayed a reluctance to spend, and new housing starts are likewise slowing.

Japanese net exports have provided the main contribution to economic growth, as the current account surplus has grown to over \$11 billion per

month. This surplus, however, is generating increasing cries of protest among Japan's trade partners, and threats of protectionism are becoming a real danger.

In a sense, one can view the Japanese economy as being built on a continuing need for growth and expansion lest the structure collapse in on itself in a massive heap of deflated assets. During the 1980s and early 1990s Japan embarked on an astonishingly ambitious capital spending investment program in which Japanese investors pumped over \$1 trillion into plant and equipment and manufacturing enhancement. Without continued export growth a lot of this investment will never pay off.

The danger of the Japanese situation is worsened by the political scandals that have hurt prospects for badly needed economic stimulus.

As against these negatives, upcoming elections will increase the domestic pressure for a growth package and international pressure will mount for Japan to take some action to boost its domestic economy and thereby help reduce its dangerous and unsustainable external trade imbalances.

I think that the Japanese authorities will finally and belatedly recognize the severity of the current situation. The Bank of Japan will lower the official discount by 50 basis points, to 2.75%, and there will be an additional boost to infrastructural expenditures. There will also very likely be a cut in personal taxation.

However, the action will be reflexive not pro-active, so the problems will not be sufficiently addressed to ward off a recurrence in the future.

Does this somewhat pessimistic view of Japan's immediate economic

prospects make me negative toward the yen? Not necessarily. The Bank of Japan has lowered interest rates quite dramatically over the past several years, and Japan may very well be close to a cyclical low in both its rate structure and its economy. Furthermore, even if the next dosage of fiscal and monetary stimulus proves to be insufficient, the enormous trade surplus creates a steady demand for yen, as foreign sales are translated back into the domestic currency.

One must also consider that part of the perversity in foreign exchange is that over relatively short periods of time (e.g., three to six months) there is no clear correlation between relative economic performance and the relative strength of the currency. Capital flows anticipating shifts in monetary or fiscal policy, or coordinated governmental intervention, are more likely to drive a currency higher or lower than actual levels of domestic output.

The bottom line is that I can't now formulate a convincing argument for either a surging or collapsing yen. This, however, is not to say that I expect the dollar/yen rate to remain stable. In the next few months a major move will begin. The monstrous trade, capital and speculative flows in and out of Japan will finally build up an overwhelming tidal wave of pressure, which will yield a giant currency shift. But I'm not yet ready to make a bet on the direction.

In the Nov. 23, 1992 issue of *FORBES*, I recommended that my readers sell at 63 ticks 50% of their March 66 Aussie puts, which had originally cost 23 ticks. It is time to take profits on the balance of the position at 82 ticks.

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Invacare's Mal Mixon plotted his chief competitor's downfall with the precision of a military campaign.

Wheel-to-wheel combat

By Christopher Palmeri

THE FIERCEST COMPETITION in the \$1.3-billion-a-year market for home health care equipment—beds, commodes, walkers and the like—is for wheelchairs. So far, Elyria, Ohio-based Invacare Corp. is winning most of the battles.

Invacare? Fourteen years ago it was a tiny division of giant Johnson & Johnson, and going nowhere fast. Then a J&J manager named Malachi (Mal) Mixon and a group of investors did a leveraged buyout, paying \$8 million for Invacare, which was then doing less than \$20 million in sales.

Last year Invacare earned an estimated \$17 million (\$1.25 a share) on sales of \$308 million, according to Baird & Co. analyst Peter Emch. Mixon, now Invacare's chairman, and his partners took the company public in 1984. With the stock recently at \$24 a share, Mixon's 8% stake is worth nearly \$25 million.

Mixon, 52, detected weakness in Invacare's chief competitor. Everest & Jennings International had over 80% of the wheelchair market, but, says Mixon: "They were arrogant and had lost touch with the customer."

Before earning a degree from Harvard's business school, Mixon served in Vietnam as an artillery officer in the U.S. Marine Corps. He plotted E&J's downfall as if planning an artillery strike on a massed North Vietnamese division. First, he stockpiled ammunition, strengthening Invacare's distribution network, so that the nation's 6,000 independent home health care dealers could easily get his product. Mixon offered the dealers prepaid freight, 48-hour delivery, cheap financing, money for cooperative advertising, and volume discounts.

In 1982 Invacare introduced a new product: a motorized wheelchair with the industry's first computerized controls. Invacare's controls could be easily adapted to the specific needs of the severely disabled. At more than \$3,500 per chair (paid almost entirely by health insurance plans), it is still the industry standard.

Everest & Jennings fought back by cutting prices. But lean production techniques helped Invacare match the cuts. Many of Invacare's standard chairs are now produced in a low-cost *maquiladora* plant in Mexico. Today E&J has about 20% of wheelchair sales



Bruce Zick
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Invacare

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and the company is in the red.

These days Mixon's toughest opponent is Quikie Designs, a maker of ultralightweight wheelchairs that is owned by Sunrise Medical Inc. of Torrance, Calif. Quikie was co-founded by Marilyn Hamilton, a bubbly Californian who was paralyzed in a hang-gliding accident. Using aircraft-quality aluminum frames, Hamilton cut her chair's weight from 60 pounds to 25 pounds for a hand-powered chair, and made it available in jazzy colors. Sunrise, the parent company, promotes Quikie chairs to active users by sponsoring Team Quikie, wheelchair athletes who compete in tennis, basketball, racing and skiing events for the disabled.

Quikie's chairs sell for \$1,700 and up, versus \$800 for a standard lightweight chair. But Quikie has captured 60% of the rapidly growing, \$80-million-a-year market for ultralightweight chairs. And Quikie now has its own line of motorized chairs.

Mixon isn't about to let Quikie do to him what he did to Everest & Jennings. He developed his own



ultralightweight Action chair, and began marketing it with a sense of humor. "Why settle for a Quikie?" jokes one of Invacare's promotional buttons, "Get real Action!"

Mixon's strategic advantage: Invacare's heavy dealer orientation. Unlike most medical products, wheelchair purchases are influenced less by a doctor's recommendation than by test drives with a dealer and a physical therapist. Mixon has added crutches, oxygen concentrators and other home health care products to Invacare's line. Because dealers get volume discounts on everything Invacare makes, the new products are a powerful incentive for dealers to push Invacare's high-margin wheelchairs.

Recently the battle has swung to Europe, where the \$250-million-a-year wheelchair market is consolidating rapidly. Invacare's acquisition this past November of a leading French company pushed it into the number two position in Europe behind Meyra GmbH, a privately held German firm. Promises Mixon: "I don't like being number two in anything."



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Clinton's Cabinet may or may not look like America but it certainly doesn't think like America.

The anointed

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

MUCH HAS BEEN MADE of the fact that the Clinton Administration's Cabinet "looks like America." Apparently looks count—and a quota isn't a quota unless you call it a quota.

Where performance is the criterion, seldom does that lead to an even "representation" of the various groups in any society.

Basketball fans do not expect to see teams that "look like America." No one cares that the leading beer companies in this country have German names, or that Asian Americans are statistically "over-represented" in science and engineering.

Wherever there is open competition, this has produced demographically uneven distributions of people in all sorts of endeavors, in countries around the world and down through history.

Commerce and finance in the Ottoman Empire were dominated by people who were not Turks, as they were dominated in medieval Spain by people who were not Spaniards, and in 20th century Thailand by people who were not Thais. Most of the college degrees in Malaysia were earned by people who were not ethnically Malays—until quotas were instituted.

Demographic representativeness is seldom achieved in a multi-ethnic society without quotas, whether or

not people are honest enough to call them quotas.

Those of us old-fashioned enough to be concerned about how people think and perform, rather than how they look, will find that the Clinton Administration Cabinet does not think like America, and is unlikely to act in accordance with the values or beliefs of most Americans.

As regards economic policy, the Clinton team is almost uniformly in favor of a larger role for government. Some of them talk about the deficit—as a prelude to asking for higher taxes—while others are just bursting with bright ideas for specific interventions in the economy. But the bottom line in both cases is more government.

Those who talk about the deficit are often called "conservatives," but invoking the deficit to justify higher taxes accomplishes nothing more than to channel a higher percentage of the nation's resources through the government. If raising tax revenues would reduce the deficit, we would have achieved a surplus years ago, for tax revenues doubled between 1980 and 1991.

The more straightforward advocates of activist government are perhaps epitomized by Robert Reich, selected by Clinton to be Secretary of Labor. Although the media keep referring to him as "Professor" Reich and an "economist," he is in fact neither. Although he has long been a fixture in the media, bubbling over with ideas for reshaping the economy, Reich has a law degree, and the Kennedy School has never conferred on him the title of "professor."

Among the latest in the never-ending stream of bright ideas by Robert Reich are increases in the minimum wage and mandating training costs on employers, both of which make it more expensive to hire low-skill labor,

and can be expected to make it harder for young people to get a start in the labor force.

Then there is Laura Tyson, a Berkeley professor of economics, selected to be chairman of the Council of Economic Advisers in the new Administration. Professor Tyson has a long history of favoring more government intervention in the economy. Just a few years ago, she even had good things to say about the government-controlled economies of Eastern Europe.

Conversely, in 1990, she referred to the "free market frenzy in the United States during the past decade." We need fear no such frenzy during the Clinton Administration.

Professor Tyson is one of those clever people who can show that the real world does not conform to the abstract textbook models of economic competition, and therefore—here is where the leap beyond logic comes in—politicians' decisions should replace the flawed and shortsighted decisions of others.

By parallel reasoning, one could show that the law of gravity does not follow the abstract textbook model, whose scientific formula for the speed of a falling object leaves out air resistance. Nor do the chemicals of the real world coincide with the 100% pure chemicals assumed in textbook formulas for chemical reactions.

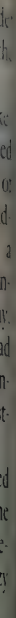
But would anyone wave aside the principles of physics and chemistry, and say that such things should be determined in Washington?

Even within the field of economics, one could just as easily have started with the proposition that the decisions of government are flawed and shortsighted, and concluded that therefore such decisions should be replaced by the decisions of the marketplace.

There is method in the madness of such people as Reich and Tyson. Their consistent theme is that people like themselves should be preempting the decisions of the rest of us, that the anointed should be able to experiment with the money, the jobs, and the futures of their fellow Americans.

That idea doesn't sound like America, no matter what the Cabinet looks like. ■

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The unions are geared up to ask Bill Clinton to prevent hundreds of thousands of people from working at home.

New outlaws?

By Jody Brennan



Carol Roberts knitting hats in her home in Maine
"I just want the government to leave me alone."

CAROL ROBERTS, of Gorham, Me., works hard to help support her family. Married and with three children, Roberts, 43, works at home knitting sweaters, hats and mittens for a distributor who then sells the knitted goods to retailers. The distributor provides Roberts with yarn and designs; Roberts produces on a piece-rate basis that in effect pays her upwards of \$10 an hour.

Roberts' husband works full time as a parts inspector at a local GTE Sylvania plant, but the couple can't make it on one salary alone. With one child in college and fat monthly mortgage payments, Carol Roberts' knitting income is desperately needed. But if the country's big labor unions have their way, she may lose her job.

Roberts is what the unions call an "industrial homemaker," meaning she does in her home what could be done in a factory. The AFL-CIO estimates that there are more than

600,000 industrial homeworkers around the country. Most of these workers are women, and many work one way or another in the apparel industry.

Unions don't like people like Carol Roberts. Homeworkers don't join unions, and they compete against union labor. In 1938 Congress and the Department of Labor banned industrial homework in seven industries: ladies' garments, jewelry, gloves and mittens, buttons and buckles, handkerchiefs, embroideries and knitted outerwear. But in the 1980s exceptions were created to allow homework in all but ladies' garments and some jewelry.

With the Democrats back in the White House, the AFL-CIO is now hoping to eliminate these exceptions. Says John Zalusky, AFL-CIO head of wages and industrial relations, "When the opportunity exists, we're going to the Hill as well as to the

Administration to make sure the [1938] ban is reinstated [for the exempt businesses]."

There's even been talk of expanding the homework ban to service industries, where rapidly improving technologies are making a daily commute to an office unnecessary. For example, some data entry employees for insurance companies are now set up to work from home.

Working at home has obvious benefits beyond the merely monetary ones. Working mothers can spend more time with their children. Older workers can supplement their Social Security checks.

In some rural areas, the extra income from homework can mean the difference between holding on to a family farm and losing it.

The unions are unmoved by such arguments. Officials of the International Ladies' Garment Workers' Union insist that homeworking merely encourages exploitation—that economically desperate homeworkers often enlist their children to help them, violating child labor laws and creating a stressful home environment. AFL-CIO officials complain that labor and civil rights laws can't be enforced in private homes, and that sexual harassment is more likely to occur. Such assertions have little basis in fact or common sense, but they do make good headline copy.

Neither Bill Clinton—nor his new Secretary of Labor, Robert Reich—has yet said how he'll lean on the homework issue. But the betting is the union representatives will get a very sympathetic hearing. "This is a major issue for the unions," says a former labor official. "How can Clinton ignore them?"

Carol Roberts fears the unions will get their way. As an insurance policy, she is trying to develop her own knitting business, Mirjama Knits. When she isn't knitting for the distributor who buys her output, she knits and sells her own designs directly to retailers. If Roberts can get her sideline business going, then as a proprietor she can work wherever she wants.

"I just want the government to leave me alone," says Roberts. With lots of government interventionists taking up residence in Washington, she's unlikely to get her wish.

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***Making Our Mark
on the World***

David McMurtry didn't have enough confidence in his invention to quit his job to promote it. Fortunately for McMurtry—and for Britain—a co-worker did.

The reluctant entrepreneur

By Peter Fuhrman

DESPITE BRITAIN'S well-publicized economic woes, you can't write off the old British lion yet. Not so long as it breeds companies like David McMurtry's Renishaw Plc. From its base in the English Cotswold village of Wotton-under-Edge, Renishaw is the world's leading supplier of a measuring device that makes machine tools accurate to within five-thousandths of an inch (0.005 inches), reliably and consistently.

Renishaw's product is a stunningly

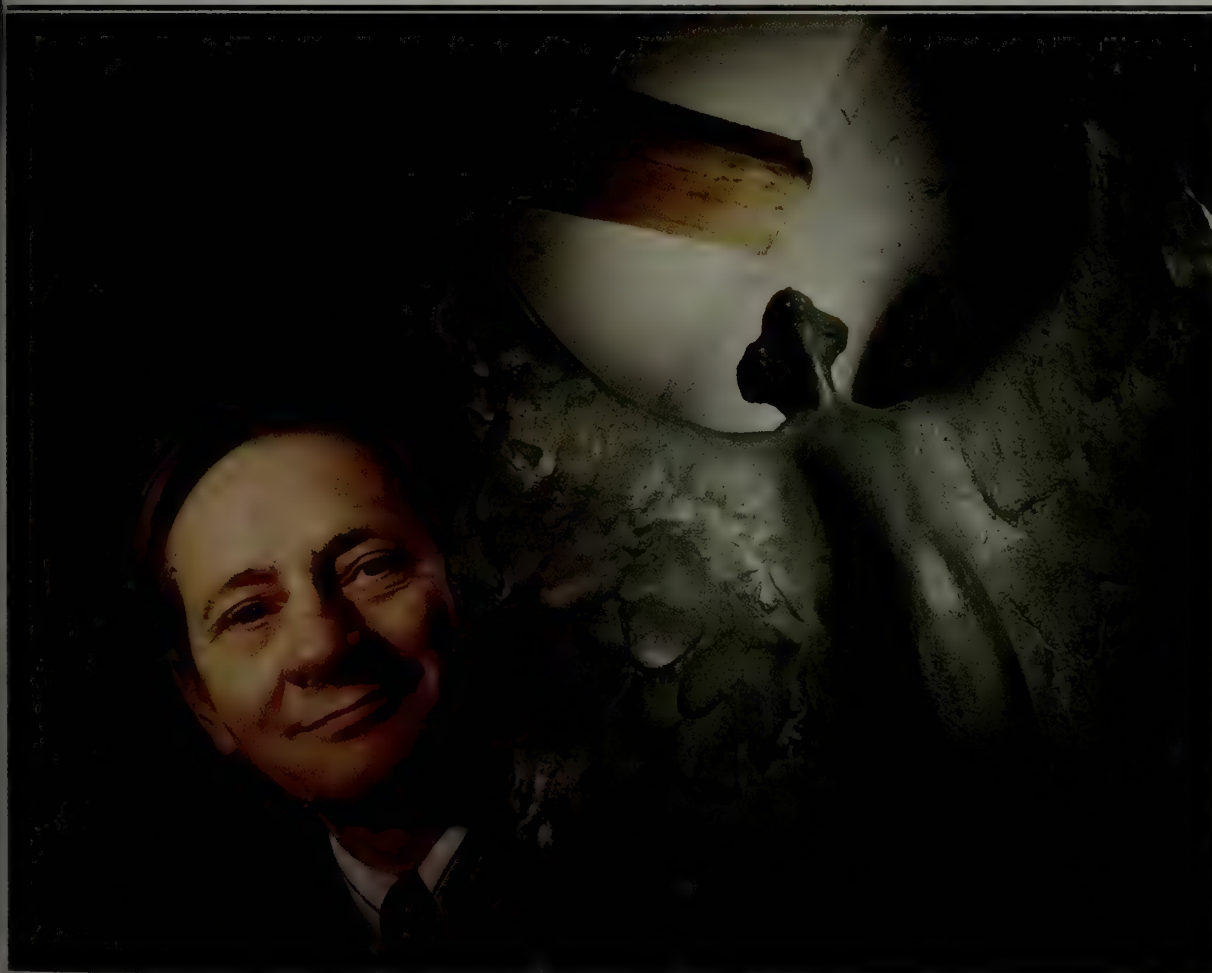
simple device that acts as the eyes and fingertips of the tool, while getting round the key problem of metrology, the science of measurement. Usually, as soon as an instrument touches the object being measured, it tends to move it, even if only minutely, making the measurement inaccurate. Lasers often don't work well, either, on a machine shop floor, because cutting oils and metal shavings upset their precision.

At the heart of a Renishaw device is

a small, rugged, ruby-tipped probe that is fitted to the cutting end of a computer-controlled machine tool. Customized software allows the probe not only to measure size to microscopic standards but also to check shape and surface finish while the part is being machined.

Prior to the invention of the Renishaw probe, in the mid-1970s, a machinist had to remove each part from the machine tool and measure it on a separate machine, shuttling back and forth until the part finally met the specifications.

David McMurtry had his flash of inspiration one weekend. An amiable 52-year-old who still has a faint lilt from his native Ireland, he was then deputy chief designer at Rolls-Royce Plc., the British aircraft engine maker, where he started work as a 16-year-old apprentice. While working on the supersonic engines used on the Concorde, he faced an awkward problem. Every time the location of a length of tubing along the afterburner was measured, the tubing was knocked very slightly out of alignment, harming the engine's performance.



David McMurtry, chairman and inventive force of Renishaw Plc. **Winning Japanese respect, the hard way.**

"I went home and built a model of a new type of measuring device using some old metal bits and some carpet underlay," he recalls. How it works—and how it avoids moving the part it is measuring—can be seen in the drawing here.

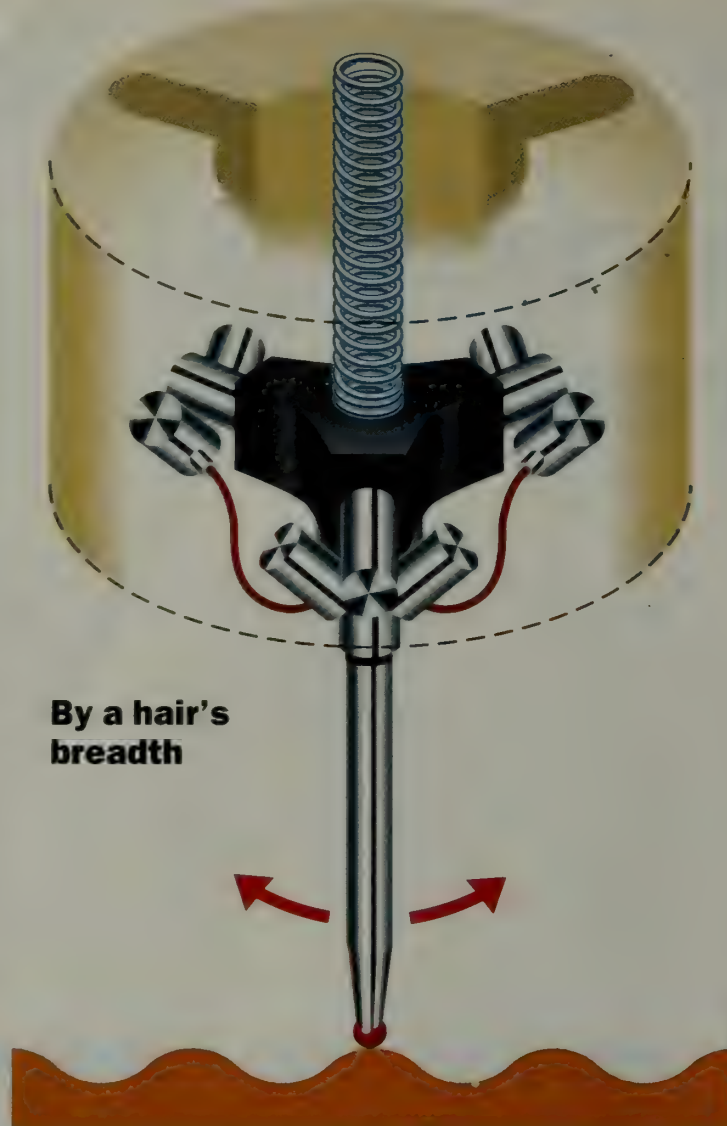
In a little over a decade, Renishaw probes have become universally used in advanced engineering. NASA uses one to ensure the fit of heat shields on the space shuttle. GM relies on them to guide the cutting of key parts such as engine blocks produced at its Saturn factory.

"If you read a Lexus ad, it stresses how quiet the engine is and how tight the doors fit," McMurtry says. "This is the result of machining parts to within very low tolerances, with no sloppy fits." Using Renishaw probes, needless to say.

He won that respect the hard way. Japan has eight of the world's ten largest machine tool companies and did not take easily to being dependent on a foreigner. While stalling his Japanese patent application for 11 years, Japanese companies made and sold duplicates of the Renishaw probe.

The elegant simplicity of McMurtry's invention made reverse-engineering it all that much easier. The Japanese apparently felt that a little British outfit would have neither the stomach nor the money to fight patent cases in Japan. But McMurtry had the financial backing of his old employer, Rolls-Royce Plc.; McMurtry had granted Rolls a 50% share in his royalties in return for the big company's promise to finance his patent protection.

With Rolls-Royce's support, Renishaw spent more than \$4 million in outside legal fees to fight and win 12 major patent suits. Finally Japanese imitators were being forced to cease making their ripoff models, and so were GTE in the U.S. and Carl Zeiss in Germany.



The ingenious Renishaw probe is set among three electronic sensors that register the faintest contact with the piece being measured, whether the pressure comes slightly sideways or vertically. Conventional measuring instruments detect only vertical contact and, as a result, tend to move the workpiece, thereby making the measurement imprecise.

The key legal decision, in 1979, was winning a U.S. patent, thus preventing Japanese companies from selling their knockoffs in the U.S. market. Thus, for all the respect the Japanese now accord him, McMurtry remains somewhat standoffish where his Japanese customers are concerned. He turns down the politest request from Japanese customers to tour the factory. "Why," he asks, "should I give them any ideas about how to compete with us?"

The year Renishaw won its U.S. patent, its sales were just \$1.5 million. As the company won the patent suits and put its competitors out of commission, revenues climbed to \$43 million by 1988 and \$70 million

last year. In 1988 Renishaw bought back Rolls-Royce's royalty participation for \$2 million.

Its profits are strong, too. The average aftertax profit margin in the U.S. machine tool industry is under 3%. Renishaw makes over 14%, despite current weakness in machine tool orders. The Renishaw probe is contributing to another trend, a noticeable shift by users to buying cheaper machine tools; advanced machine tools cost around \$50,000 on average today, down from \$80,000 five years ago. The reason: Fitting a probe and its control boxes makes the performance of all lathes, milling machines or drills more or less equal.

Some of McMurtry's original patents begin expiring in three years. He and Renishaw's engineers continue to tinker, however, developing new ideas and more elaborate versions of the probe and its related black boxes. The company has filed 31 new patents in the last year alone. Renishaw has developed an integrated system using a variety of interchangeable probes and software that can cost up to \$60,000. Attach one of

these to even a standard machine tool, McMurtry says, and a customer can feed raw metal in at night, and return in the morning to find fully machined, quality-inspected parts.

Renishaw has made McMurtry rich. His 35% holding in the London Stock Exchange issue has a paper value of \$70 million. The irony is that when he first made his invention he had so little confidence in it he stayed with his job at Rolls-Royce for two more years to finish up his work on the Concorde. Fortunately, a co-worker, John Deer, was willing to leave Rolls-Royce and sell the probe full time. Deer is now the deputy chairman and owns 17%, worth \$35 million.



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san Altima XE or SE vs. 1992 competitive vehicles. Slalom comparison based on course completion time. Interior quietness based on decibel level at 55 miles per hour.

President Clinton complained about "quota games" and "bean counters" when people criticized the composition of his Cabinet. Welcome, Mr. President, to a problem that you now share with millions of your fellow Americans.

When quotas replace merit, everybody suffers

By Peter Brimelow and Leslie Spencer

"Quota games . . . math games . . . bean counters!"

President-elect Bill Clinton had every reason to lash out at feminist groups at his Dec. 21 news conference. In fact, he had been bean-counting busily himself: According to widespread reports, some of his original Cabinet picks were bumped because they were the wrong sex or race, key constituencies like urban Catholics and supporters of Israel have been crowded out, and his entire appointment process has been seriously slowed. But now mindless feminist pressure was forcing him to admit the ultimate contradiction of all such affirmative action policies: "Diversity" can conflict with merit.

Above all, the President must know the issue is death for the Democrats: His own pollster, Stanley Greenberg, conducted the post-1984 focus group interviews that found opposition to quotas was key to the defection of white working-class voters. (The party promptly suppressed Greenberg's report and now uses only happy-talk such as "looking like America." But a quota by any other name is still a quota.)

If quotas are clogging the Clinton transition, what are they doing to the economy? The subject went unmen-



Marvin Matheson

tioned, needless to say, at Clinton's two-day economic summit in Little Rock. In fact, it has gone virtually undiscussed throughout the quarter-century of bureaucratic and judicial decrees that have effectively transformed the color-blind 1964 Civil Rights Act into a pervasive quota system.

Ironically, just as socialism has collapsed across the globe, the leading capitalist power has adopted a peculiarly American neosocialism, putting politics (and lawyers) in command of its workplace, albeit on the pretext of equity rather than efficiency. Says Edward Potter of the Washington, D.C.-based Employment Policy Foundation: "We have, without doubt, the most far-reaching equal employment laws found anywhere in the world."

Before applauding Potter's sweeping statement, stop for a minute and ponder this question: What does the replacement of merit with quotas cost the American people? The answer is: plenty. The impact may easily have already depressed GNP by a staggering four percentage points—about as much as we spend on the entire public school system.

Quotas are not the law of the land, exactly. They are explicitly banned in

Gary Becker, 1992 Nobel laureate in economics, University of Chicago

"Competition forces people to face costs, and therefore reduce the amount of discrimination when compared with monopolistic situations."

both the 1964 and 1991 Civil Rights Acts. Nevertheless, corporate America has been terrorized by the legal legerdemain whereby any statistical disparity between work force and population is equated with intentional discrimination. Throughout American business, newly entrenched affirmative action bureaucrats are enforcing discrimination by race and sex—in favor of the "protected classes" (women, minorities and, most recently, the disabled)—as decreed by



Washington.

One such bureaucrat, Xerox Manager of Corporate Employment Theodore Payne, puts it bluntly: "We have a process that we call 'balanced work force' in Xerox, everybody understands that, and it's measurable, it's goals. . . . *Relative numbers. Relative numbers. That's the hard business, that's what most people don't like to deal with, but we do that all the time.*"

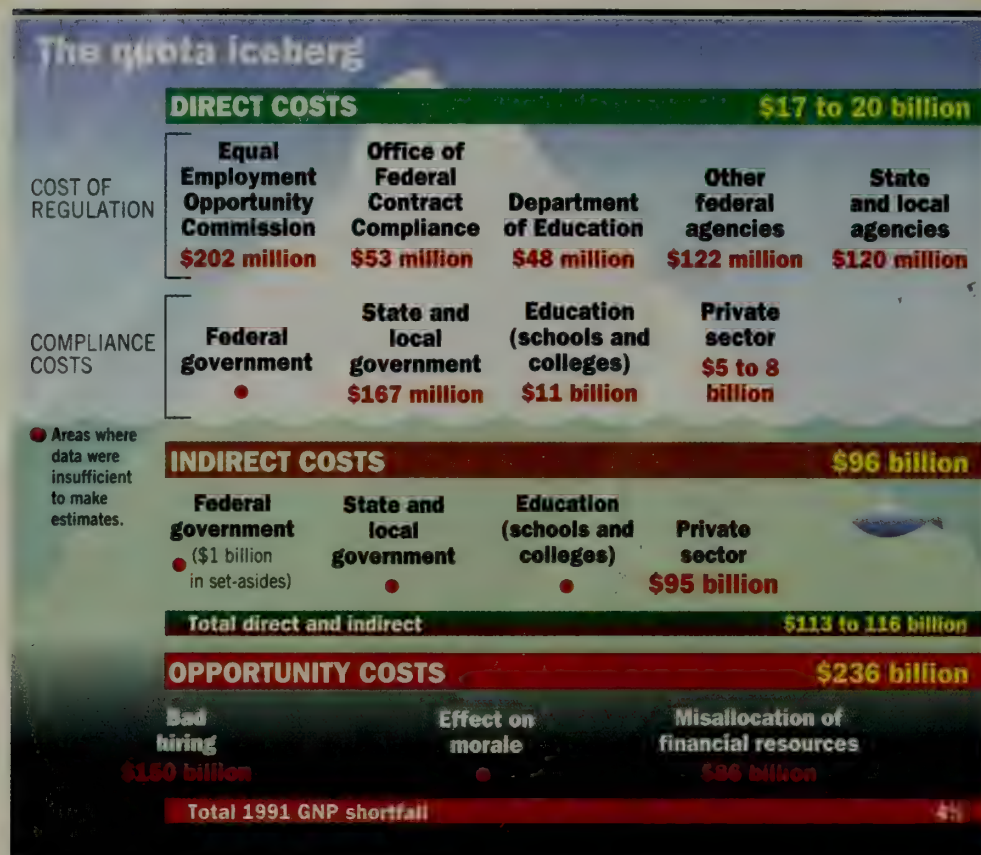
"Balanced work force" is, of course, yet another euphemism for

quotas. Payne is apparently saying that Xerox discriminates against white males in favor of the "protected classes." He says it without apology. But, if anyone cares, white males have feelings (and families to support), too.

"To cut whites out of the entire process is racism pure and simple," laments a white male reporter for the *San Antonio Light*, which is due to close down any day. He says Gannett and other major news organizations are showing interest in his Hispanic

colleagues exclusively. But he adds: "I don't want to be quoted. I'll never find another job if I am."

In a blistering 1987 article in *Society* magazine, the late Professor William Beer of Brooklyn College described his fellow social scientists' attitude to affirmative action as one of "resolute ignorance." *FORBES'* search of academic journals and Ph.D. theses confirms that ignorance has remained resolute. What little work has been done tends to focus only on whether



Direct dollars spent on "civil rights" law enforcement and compliance is only the tip of the quota iceberg. Below water, the indirect costs—resources diverted from other activities—are even larger. And this causes an accumulating GNP shortfall.

affirmative action policies have benefited the "protected classes." (Have they? For an answer, see below.)

Corporate America contributes to this resolute ignorance by declining to disclose its costs. "Our members would never say," the National Association of Manufacturers' Diane Generous predicted (rightly). "They would be concerned they might be accused of complaining about how much money they had to spend on this."

Another big business lobby, the Business Roundtable, did publish a study by accountants Arthur Andersen more than a decade ago on how much its members spent to comply with federal regulation, including specifically the Equal Employment Opportunity Commission (EEOC). But today a Roundtable spokeswoman says the organization has no plans to update the study—and that it no longer even possesses any copies.

Sure, measuring the costs of regulation is difficult. But it can be done. For example, the Environmental Protection Agency is required by executive order to make regular estimates of

its economic impact.

So here is a rough but reasonable try at figuring the cost of quotas. That funny noise you hear from now on is economists gritting their teeth. Our response to them: Go make your own estimates. And remember—the truth shall set you free.

Two points about quotas emerge immediately:

Quotas are a very big deal. All employers with more than 15 staff, public, private or nonprofit, come under the EEOC's Uniform Guidelines on Employee Selection Procedures. All can be sued by the EEOC for "discrimination" if the racial, ethnic and sex mix of new hires diverges sufficiently from that of all other qualified applicants—for example, if the percentage of blacks hired is lower than the percentage of blacks applying. That covers 86% of the entire nonfarm private-sector work force.

Additionally, more than 400,000 corporations doing business with the federal government, covering about 42% of the private sector work force, have to file with the Office of Federal Contract Compliance Programs

(OFCCP). This process is so onerous that the OFCCP's explanatory manual is about 700 pages long. Corporations with contracts of \$50,000 or more must develop an "affirmative action plan" aimed at achieving staffing at all levels that is proportionate to the composition of the qualified work force.

Many colleges and universities are subject to no fewer than three federal agencies: EEOC, OFCCP and the Department of Education's Civil Rights Office. And finally, there are federal, state and local governments. Here a racial and gender spoils system has effectively subverted the merit hiring rules so painfully established by Progressive Era reformers at the beginning of the century.

All of which means that the 1984 poll that found one in ten white males reporting they had lost a promotion because of quotas was quite possibly accurate. Indeed, it could be an underestimate. Quotas have been implemented with extraordinary secrecy and deceptiveness, in part because of their dubious legal status.

"Word comes down, but it does not go out," says Claremont McKenna College sociologist Frederick Lynch, author of the only study on the impact of quotas on white males, *Invisible Victims*. He cites a Los Angeles manufacturer whose receptionist was instructed to accept but quietly shelve employment applications from whites and Hispanics—after they had left the room—because the plant did not have "enough" blacks.

Typical of the secrecy and scale of quotas: the "race-norming" saga. EEOC Vice Chairman R. Gaull Silberman—a Reagan appointee—says that until she read it in a newspaper in 1990, she and EEOC Chairman Evan Kemp had "absolutely no idea" that their own agency was pressing for aptitude tests to be race-normed. This bit of bureaucrat-speak refers to the practice of radically adjusting scores to compensate for minorities' systematically lower results. Yet race-norming had been going on throughout the 1980s. It reportedly subjected at least 16 million test-takers to a quota system they knew nothing about.

After public outcry, race-norming was banned in the 1991 Civil Rights Act. But quotas, like vampires, have

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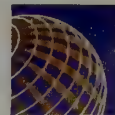
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proved virtually impossible to kill. Now they seem to be rising from the grave in the shape of a new test-twisting technique called "banding"—concealing differences in performance by lumping ranges of scores together.

The second point about quotas:

Quotas are very expensive. There's surprising denial about this. University of Chicago free market economist Gary Becker, a 1992 Nobel laureate, wrote the standard analysis, *The Economics of Discrimination* (1957). But Becker recently shrugged off affirmative action in a *Business Week* column. He argued that although affirmative action "does hurt some individuals, as

something like what your work is worth. If you belong to an unpopular group, employers may pay you less. But that means that they will make more money off you. Because you are such a profitable hire, you will come into demand, and your labor will be bid up. This process can only be prevented by monopoly or government intervention—both of which happened, for example, in South Africa under apartheid. And now in the U.S. under affirmative action.

Talking to FORBES, Becker is very anxious to stress that he is *not* saying discrimination will be *completely* competed away. But there is a *tendency* for it to be competed away. "Competi-

controlled for."

Indeed, Harvard economist Richard Freeman found blacks and whites with the same backgrounds and education had achieved wage parity by 1969, well before quotas had America in their grip.

Even the recent much-touted Federal Reserve Bank of Boston study claiming to prove the existence of racial discrimination in mortgage lending turns out to have made a basic methodological error in its handling of default rates (FORBES, Jan. 4). Perhaps significantly, its coauthor, Boston Fed Research Director Alicia H. Munnell, was a featured speaker at the Clinton economic summit.

All of which shows the fallacy of two common arguments for government-imposed quotas: that they are necessary to force corporations to tap new pools of labor, and that corporations need a diverse work force to service an increasingly diverse population. Both simply assume that markets don't operate—that corporations couldn't figure this out themselves.

In fact, it's hard to see any benefits contributed by quotas to the overall economy—as opposed to the benefits they channel to the "protected classes." "Affirmative action is a fairly pure form of rent-seeking," says the University of Arizona's Gordon Tullock, using the concept he developed for special interests' use of political power to extract subsidies for themselves from the economy. "There simply isn't any other economic rationale."

"In 1987 EEOC's local field office wrote me a letter saying they had reason to believe I didn't have enough women 'food servers' and 'busers.' No woman had complained against me. So the EEOC advertised in the local paper to tell women whose job applications we had rejected—or even women who had just thought of applying—that they could be entitled to damages. Twenty-seven women became plaintiffs in a lawsuit against me. The EEOC interviewed me for hours to find out what kind of person I was. I told them in Sicily where I came from I learned to respect women. I supplied them with hundreds of pounds of paper. I had to hire someone full time for a year just to respond to EEOC demands. Six months ago I finally settled. I agreed to pay \$150,000 dam-



Theodore Payne, manager of corporate employment, Xerox Corp.

"Relative numbers—that's what most people don't like to deal with, but we do it all the time."

it caters to minorities with political clout," it "probably causes less harm than many other programs," such as farm supports.

Strangely, however, Becker tells FORBES that in fact he has no idea what quotas cost ("I think it's an important subject for research"). But we do know what farm supports cost: about \$9.7 billion in 1992, which is substantially lower than our estimate of \$16 billion to \$19 billion for private-sector and education compliance costs alone (see p. 82).

Nevertheless, Becker's analysis of discrimination remains the best framework for assessing the economic impact of quotas:

In a free market, Becker argued, there is an inexorable tendency for everyone to receive the marginal value of his or her labor. This means that ultimately, you are likely to be paid

tion forces people to face the costs, and therefore reduces the amount of discrimination, when compared with a monopolistic or noncompetitive situation," Becker says.

If you believe that racism stalks America like the Angel of Death and that only federal force can keep it in check, you won't like what Becker is saying. But the evidence clearly supports him.

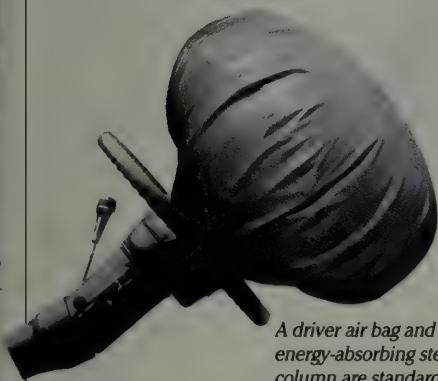
"Once adjustments are made for factors like age, education and experience, 70% to 85% of the observed differences in income and employment between the various groups in America disappears," says economist Howard R. Bloch of George Mason University. "That's been shown by studies dating back to the mid-1960s. And you can't even be sure that the residual gap is due to discrimination. It could be due to factors we haven't

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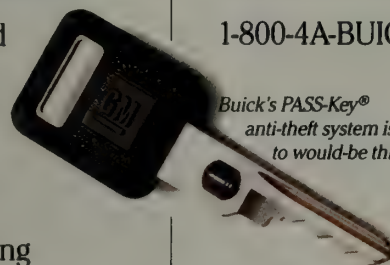
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R. Gaull Silberman, vice chairman, Equal Employment Opportunity Commission

Silberman says "race-norming" of aptitude tests was news to her, although her agency had been encouraging its use for a decade.

ages, and as jobs open up, to hire the women on the EEOC's list. Even if they don't know what spaghetti looks like! I have to advertise twice a year even if I have no openings, just to add possible female employees to my files. I also had to hire an EEOC-approved person to teach my staff how not to discriminate. I employ 12 food servers in these two restaurants. Gross sales, around \$2 million. How much did it all cost me? Cash outlay, about \$400,000.

What the government's done to me—devastating. I wouldn't wish it on my worst enemy."

—Thomas Maggiore,
Owner of Tomaso's and
Chianti restaurants,
Phoenix, Ariz.

Economists break the cost of regulation into three parts:

Direct Costs: the EEOC's outlay of taxpayers' money in regulating and suing Thomas Maggiore, and the money he spends in fines, damages, filling in forms, advertising and otherwise complying with EEOC demands.

Indirect Costs: the time and overhead Maggiore has to divert from other activities to argue with the EEOC, do the continuing paperwork, sit through sensitivity training, reorganize his workplace and his methods of operating.

Opportunity Costs: what Maggiore might have achieved if he had been allowed to invest his time and money as he wanted; the loss to the Phoenix-area economy if he gives up and goes back to Sicily.

Remember: Thomas Maggiore is precisely the kind of small business person the politicians claim they want so badly to help.

Let's look at some numbers.

Direct Costs. One guess of private sector compliance costs for affirmative action: In 1977 Business Roundtable members spent \$217 million complying with equal opportunity regulations. They employed 5% of the nonfarm work force; OFCCP regulations cover 42% of the private work force, implying total costs of \$1.8

billion. Adjusted for inflation, that's a current \$4.2 billion.

Second guess: In 1981 a study by the Senate Labor & Human Resources Committee suggested compliance costs for the largest 500 companies of about \$1 billion. That's \$1.8 billion extrapolated over the OFCCP universe. Adjusted for inflation: \$2.8 billion.

Neither of these figures includes the EEOC's impact, although it is by far the larger bureaucracy. But the guess-timates are in line with the rule of thumb developed by regulation-watchers from the Center for the Study of American Business at Washington University in St. Louis: Every dollar spent on regulatory enforcement inflicts about \$20 in compliance costs. By *FORBES'* count, the federal government spent some \$425 million on civil rights oversight in 1991, of which about \$303 million appears to be directed at the private sector. Implied private-sector compliance cost: \$6 billion.

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There is a curious shift in business these days, "back to the basics." And it seems as if the sophisticated fast-trackers of the '80s have been transformed into the business fundamentalists of the '90s.

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The basics. By taking them forward, they've taken us forward. To where we are today, to where we'll be tomorrow.



C o n s e c o

To get an estimate of compliance costs in colleges and universities, *FORBES* turned to John Attarian, a writer and economics Ph.D. who has analyzed the budget of his alma mater, the University of Michigan. Under its "Michigan Mandate," the university is devoting much effort to the recruitment and retention of the "protected classes."

Attarian says about 2.5% of the University of Michigan at Ann Arbor's general budget appears to be devoted to this cause. This does not capture costs buried in department budgets, such as for recruitment. (Minor example: Advertising faculty posts in special minority-oriented publications costs over twice the usual rate.) Still, extrapolated across the estimated \$164 billion spent on U.S. higher education in 1992, this suggests total compliance costs of \$4.1 billion.

If the same relationship holds true for the \$261 billion spent on public and private schools in 1992, their compliance costs would be \$6.5 billion. Of course, the problems of schools are different from those of colleges. They may be worse. Busing for racial balance has reportedly caused some school districts to spend over a quarter of their budgets on transportation.

Quotas are just another excuse for the American academic establishment to eschew scholarship for social engineering. Thus, a long survey of "minorities in science" in the Nov. 13 issue of *Science* magazine reported that the National Science Foundation, which is supposed to be funding research, has spent a staggering \$1.5 billion in the last 20 years on fostering black scientists. The magazine describes the results as "dismal."

State and local governments also face compliance costs—and they also inflict them on the private sector. New York State, for example, spent \$10.5 million complying with its own and federal laws last year, and \$7.5 million on "civil rights" enforcement. In 1990 state and local govern-

ments spent some \$835 billion. Implied total expended on quota compliance and coercion, given New York's rate: \$287 million. Additional private sector compliance costs, given New York's enforcement costs and applying CSAB's 20-to-1 rule of thumb: \$2.4 billion.

Note that we include no estimate of what it costs the federal government to comply with its own regulations.

We like to be moderate.

Private-sector compliance costs are apparently much exacerbated by the federal enforcers' arbitrary and erratic

talk about the experience.

Total direct costs: \$16.5 billion to \$19.7 billion. Or about \$300 per family of four. Compare it with the \$20 billion of "infrastructure spending" Clinton has promised to kick-start the economy. And this is just the tip of the iceberg.

Indirect Costs are the part of the iceberg just under the water—easily seen but involving no direct cash outlay.

"It takes me 50 extra hours to make every faculty hire because of the need to comply with affirmative action rules," says Professor Herbert London, formerly Dean of New York University's Gallatin Division, "even when I end up hiring the person I wanted to hire in the first place."

Naturally, this cost does not appear as a cash item in NYU's operating budget of \$627 million, excluding the medical school. (The two-person affirmative action office costs just \$172,000—or about \$6.50 per full-time student—although a spokesman tells *FORBES* that over a hundred people deal with minority recruitment every day.) Nevertheless, the cost is real.

A measure of these indirect costs is provided by the single Ph.D. thesis *FORBES*

found that investigated costs, by Peter Griffin, now assistant professor at California State University at Long Beach. Griffin's rarefied econometric analysis concluded that by 1980, OFCCP regulation had increased federal contractors' labor and capital costs by an average of 6.5%. (As compared with noncontractors—although actually their costs would also have been increased by EEOC requirements.)

The implications of this are substantial. OFCCP regulation covers about 42% of the civilian work force. The contractors' cost of labor alone exceeded \$1.4 trillion. The minimum cost of quotas to them, based on Griffin's methodology: about \$95 billion—1.7% of GNP.

And the cost to the federal taxpayer is heavy. In 1991, \$211 billion was



EEOC Chairman Evan Kemp
Bush appointee, critic of quotas.

behavior. Some rare case studies appeared in the September 1992 issue of the American Academy of Political & Social Science's journal *Annals*. One victim reported supplying documents nine times because the OFCCP kept losing them. Another, the National Bank of Greenwood, Ind.—\$117 million assets, 138 staff, full- and part-time—was subject to a grueling and chaotic two-year audit, costing more than \$100,000 and 4,000 staff hours, although no complaint had apparently been lodged against it. Later the bank was audited twice more, again apparently without any complaints being lodged. Typically, the Indianapolis-based Merchants National Corp., which has meanwhile taken over the National Bank of Greenwood, refused to allow its officers to

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expended on federal contracts with non-government entities. The additional costs inflicted by affirmative action regulation that Griffin's work suggests this sum incorporates: some \$13 billion.

Which is on top of the damage inflicted on the taxpayer by "set-asides," the reserving of some portion of federal work entirely for contractors from the "protected classes." About \$10 billion of federal contract monies were channeled in this way last year. The premium paid is not supposed to go over 10% (although FORBES has heard of premiums as high as 25%). Additional quota tax: perhaps \$1 billion.

Ironic set-aside fact: The law is confused about this type of quota too. In *Richmond v. Croson* (1989), the Supreme Court ruled that many of the 234 state and local government set-aside programs were unconstitutional, unless actual discrimination could be proved. Local politicians, anxious to continue handing out the pork, instantly created a minor "disparity studies" industry to make the case that discrimination against minorities was widespread. In a detailed account in the January 1993 issue of *Public Interest* magazine, University of Maryland at Baltimore Professor George La Noue estimates that at least \$13 million of taxpayers' money had been fed into this young industry by June 1992, with another \$14 million commissioned by the federal Urban Mass Transit Authority alone. Atlanta spent \$532,000 for a 1,034-page report coauthored by Ray Marshall, the Carter Administration's Secretary of Labor.

Expensive? Well, proving discrimination is hard work. Most localities have long been legally required to accept the lowest bid—a Progressive-era reform aimed precisely at patronage-hungry politicians. And, significantly, cities like Atlanta, which now want to claim they discriminated, have actually been under black political control for years.

Even more ironic set-aside fact: This type of quota has created another industry—corruption. A prime contractor can set up his black electrician, for instance, in "business" as a purchaser. The electrician needn't have credit or contacts with suppliers. He

just takes 5% off the top. One "native American" contractor in Tulsa reportedly had blue eyes and an Irish name but had managed to join the Cherokee Nation of Oklahoma on the strength of an alleged great-great-great-grandparent.

These abuses can only be checked by more supervision. But minority contractors have been quoted complaining the program is too bureaucratic already.

Astoundingly ironic set-aside fact: According to Professor La Noue, over one-half of the Small Business Administration's set-asides go to groups that are composed largely of first- or second-generation immigrants. He suspects the same is likely to be true for all set-asides. In Washington,



Fred Lynch, Claremont McKenna College
White males are "invisible victims."

D.C.—where an amazing 90% of the city's road construction contracts have been set aside—one of the largest beneficiaries has been the Fort Myer Construction Corp., owned by a family of Portuguese origin who qualify as Hispanics because they emigrated from Argentina.

Absurdly, all immigrants who fall into the "protected classes" qualify for all U.S. quota programs. Which is a pretty clear indication that quotas are not about righting past wrongs at all, but about asserting political power over the economy.

A further indirect cost of the affirmative action system: litigation. (You thought massive regulation would preclude litigation? This is America!)

The number of discrimination suits in federal courts is rising astronomi-

cally—by 2,166% between 1970 and 1989, when some 7,500 were filed, versus an increase of only about 125% in the general federal caseload.

Significantly, suits about discrimination in hiring used to outnumber suits about firing. Today it's the reverse, by a factor of three or more. It's obviously absurd to suppose the same employer discriminates in hiring but not in firing. The civil rights frenzy has simply led to a more litigious, as well as politicized, workplace.

Example: Alabama state law required the Lamar County Board of Education to fire a black teacher after she failed a mandatory competency test five times during the three years allowed. She alleged discrimination because the test failed a disproportionate number of blacks. A judge reinstated her with three years' back salary.

And it's going to get much worse. Preliminary reports are that since the 1991 Civil Rights Act and the 1990 Americans With Disabilities Act (which few people yet realize is also a quota bill) filings have jumped some 30%. Both acts for the first time allow punitive damages, an explicit incentive to contingency-fee trial lawyers.

Opportunity Costs are the base of the quota iceberg, down in the murkiest depths. Unlike the direct and indirect costs of regulation, they don't show up in GNP statistics. They represent what GNP could have been if these more tangible costs had been spent differently—for job-creating investment, say, or for education. But these indirect costs are the most massive of all. For example:

Having the wrong people in the wrong jobs. Corporate America seems to have resigned itself to quotas as yet another tax. But they are a peculiarly debilitating sort of tax, levied not on the bottom line but on every phase of the corporation's activities, increasing inefficiency throughout. Most taxes are a burden to be shouldered. This is an enfeebling drug.

That affirmative action quotas lead to lowered standards is all but guaranteed by the fact that all standards are suspect to Equal Employment enforcers. "Many of these people believe there really is no such thing as job performance or productivity objectively defined, that it's really just a

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Thomas Maggiore, restaurant owner, Phoenix, Ariz.

"I wouldn't wish this on my worst enemy."

matter of one's cultural definition or cultural orientation," says Frank Schmidt, a University of Iowa industrial psychologist. Increasingly, they have been able to impose this view on American business.

The civil rights revolution has also virtually aborted the use of tests devised by industrial psychologists, which in the 1950s promised to make employee selection a science. Tests came under attack because minorities typically scored lower on them. Today they are only used, if at all, after work-related validation studies that can cost millions of dollars.

Industrial psychologists, however, have gone on believing in their work. Schmidt and John Hunter of Michigan State University have produced numerous studies showing that hiring the able results in enormous productivity increases. Today, Hunter estimates that total U.S. output would be about \$150 billion higher if every employer in the country were free to use tests and select on merit. That's about 2.5% of GNP.

Effect on morale. Poor hiring shows up not merely in poor decisions but also in poor morale. Quotas, like income tax (and unlike farm supports),

have an immediate and dramatic impact on incentives.

Frank Schmidt put it like this: "When the less competent employees reach a critical mass, their lower performance standards become the standards of the organization." The longer-established employees who are equipped for the job abandon their old high standards and conform to the new, lower ones.

Schmidt and Hunter made no estimate of the impact of this phenomenon. But they have speculated that it lay behind the U.S. productivity stall of the 1970s, as the first effects of the war against testing were being felt.

Misallocation of resources. Monies expended to meet the costs of affirmative action cannot be spent on research and development and plant modernization. The effect of this is cumulative: The growth path of the economy diverges, permanently and increasingly, from its potential. Thus we estimate that an extra \$113 billion in direct and indirect costs have been inflicted on the economy annually since 1980. A standard calculation converts this into an estimate of GNP shortfall because of affirmative action: about 1.5 percentage points by 1992.

GNP in 1991 was about \$5.7 trillion. The total shortfall quotas may already have caused comes to some 4%. That's well over \$225 billion, money that could buy a lot of social programs. Or finance a good deal of job-creating investment.

So quotas cost a lot. But do they do any good at all?

Quotas have obviously failed to prevent continuing catastrophe in much of black America. Prevailing taboos make this subject difficult to discuss. But the distressing facts are powerfully summarized in a remarkable new book, Jared Taylor's *Paved With Good Intentions: The Failure of Race Relations in Contemporary America* (Carroll & Graf). In 1950 only 9% of black families were headed by a single parent; in 1965, 28%; now, fully half. In 1959 only 15% of black births were illegitimate; in 1992, 66%. One in four black men in their 20s is either in jail, on probation or on parole. Clearly, affirmative action has done nothing to reverse the dismal trends.

Quotas have not decisively improved

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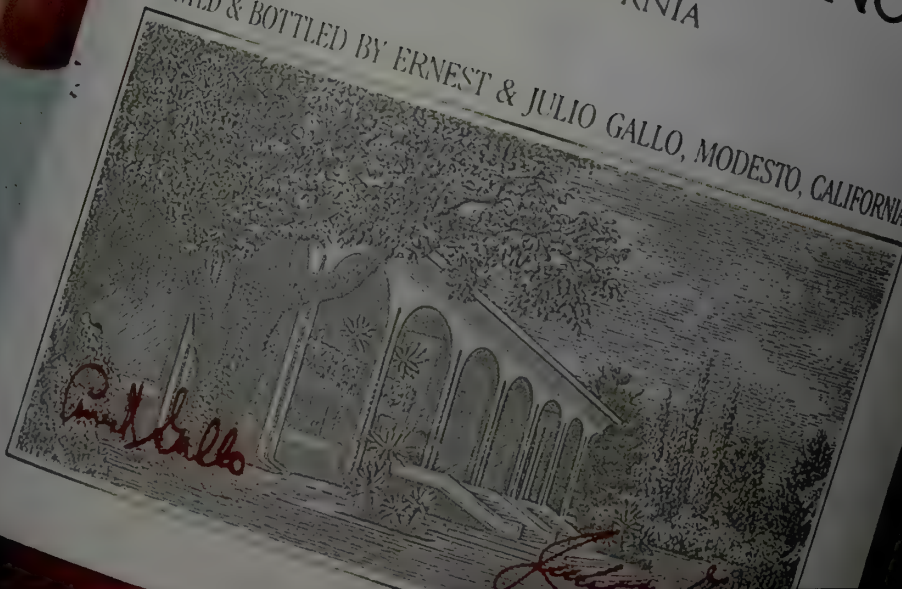


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overall black employment. "Despite all the controversies surrounding affirmative action," says Queens College Professor Andrew Hacker, a supporter of quotas, in his bestselling *Two Nations: Black and White, Separate, Hostile, Unequal*, "fewer blacks now have steady jobs of any kind and their unemployment rates have been growing progressively worse relative to those recorded for whites."

Quotas' effect on black incomes appears at best mixed. Between 1970 and 1990 black median family income, adjusted for inflation, crept snail-like from \$21,151 to \$21,423. But the proportion of black families earning above \$50,000 jumped sharply, from about 10% to nearly 15%. Dragging down the median: the increase in black families receiving below \$15,000, now nearly 40%. So quotas may have helped create a black middle class (although educated blacks might have done well anyway; after all, the proportion of white high income families also rose in this period). But the black poor have not benefited.

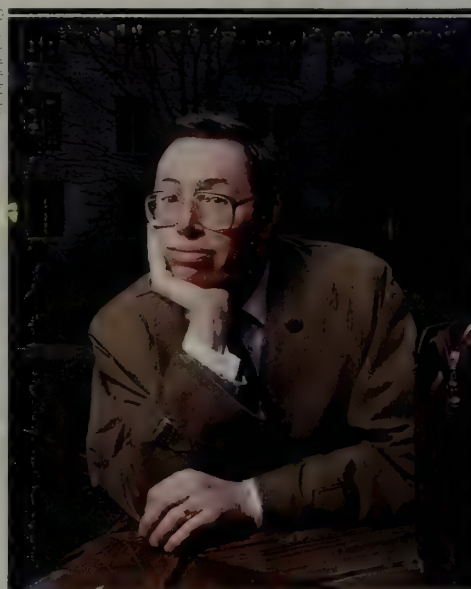
Quotas in colleges have not prevented the gap between black and white college participation from widening in the 1980s. By 1976 some 22.6% of black 18-to-24-year-olds enrolled in college, compared with 27.1% of whites. Thereafter black participation declined, then recovered. In 1990, 25.4% blacks enrolled, but meanwhile white participation had grown to 32.5%.

And although crude enrollment numbers are dear to the hearts of college admissions officers, they conceal tragic differences in attrition. For example, only 37.5% of blacks enrolling at Berkeley in 1983 had graduated five years later, compared with 72% of whites. Critics argue that top colleges burn out black students by irresponsibly recruiting them to fill quotas, when they could be successful at less high-pressure schools.

Quotas may have improved the status of women—or they may not. It's easiest to show that women have gained in the last decades—ironic, because their plight was hardly as serious as that of blacks, with whom they are now competing. Women's share of professional degrees grew from 2.7% in 1960 to 36% in 1990,

and their average earnings as a percentage of men's has increased from 61% to 72% over the same period.

But quotas may not be responsible. Female participation in the work force has fluctuated widely for generations, correlated with demographic factors like marriage and fertility rates. For example, the Hoover Institution economist (and *FORBES* columnist) Thomas Sowell has noted that women earned 17% of Ph.D.s in 1921 but only 10% in the early 1960s. Amazingly, as long ago as 1879 women constituted 40% of all college faculty and administrators. Many of these colleges were women-only, but they



University of Chicago's Richard Epstein
Just give them the money.

could still be highly competitive: In 1902 the proportion of women listed in *Who's Who* was more than double that in 1958.

This problem of apportioning credit bedevils the whole quota debate and, indeed, the entire subject of government-mandated social change. Looking back on the 1964 Civil Rights Act and its controversial enforcement, the American Enterprise Institute's Charles Murray, author of *Losing Ground* and *In Pursuit*, offers this startling thought: "There's hardly a single outcome—black voting rights, access to public accommodation, employment, particularly in white-collar jobs—that couldn't have been predicted on the basis of pre-1964 trend-lines." That's pretty devastating. It suggests that we have

spent trillions of dollars to create an outcome that would have happened even if the government had done nothing.

From an economic standpoint, quotas work rather like an older form of American neosocialism: price and wage controls. They may seem to produce the desired result. But they could equally well just be simulating it, or even smothering it.

Meanwhile, of course, the economy suffers.

It may be that before America can talk rationally about race, the generation that remembers segregation will have to die off. And we're not talking about liberals. *FORBES* asked Gary Becker, 62, what he thought would be the ideal public policy in this area.

Becker: I prefer to pass on that one. I have views on it, but I don't want to talk about it at this moment.

Oh. Why not?

Becker: Well, let me just make that judgment. I prefer not to.

Becker's University of Chicago colleague Richard A. Epstein, 49, seems to be less nervous about his popularity in the Faculty Club. His book *Forbidden Grounds: The Case Against Employment Discrimination Laws* argues that the modern civil rights laws are flawed to their heart because in negating freedom of association they have inexorably led to government coercion that threatens markets and, ultimately, liberty.

"At bottom are only two pure forms of legislation—productive and redistributive," Professor Epstein argues. "Antidiscrimination legislation is always of the second kind. The form of redistribution is covert; it is capricious, it is expensive and it is wasteful."

And Epstein makes the key economic point: If we want to subsidize a "protected class," he writes, it can be done more efficiently by just giving grants.

"I have a dream," Martin Luther King Jr. said 30 years ago, "that my four little children will one day live in a nation where they will not be judged by the color of their skin, but by the content of their character."

As bean-counting has displaced merit in America, that day is further off than ever.

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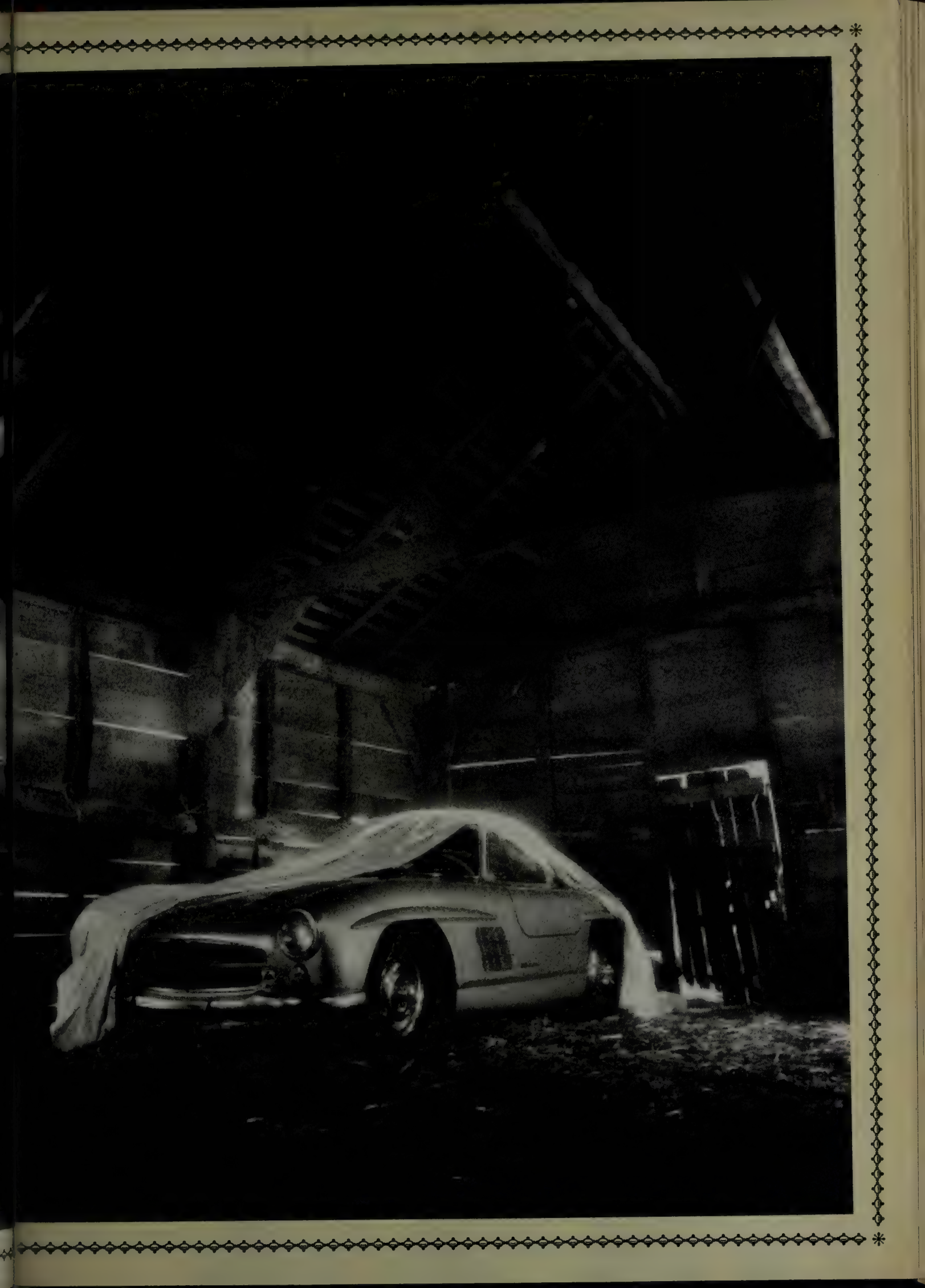
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Do you think you can spot a turnaround candidate?
Here are some formulas to use in your search.

The dog pound

By Robert Rosenstein

YOU COULD HAVE made a lot of money buying Chrysler back in 1981, when it was a seemingly hopeless loser. Where does one go hunting for future Chryslers? A computer, by itself, won't pick the right stocks, but it can narrow down the list of turnaround candidates to a manageable few. We've used a stock screening package to kick out the list below of companies that are losing money but could stage a comeback this year.

Our searching rules combine balance sheet items, earnings forecasts from Wall Street analysts and a price ratio popularized by Kenneth Fisher, *FORBES* columnist and Woodside, Calif. money manager.

Fisher's favorite tool is the price/sales ratio. To get this number you divide a company's market value (price of common times shares outstanding) by its annual sales. Other things being equal, you want a stock with a low PSR, on the theory that profit margins of both good companies and bad companies tend to regress toward the mean. One, not very profitable, paper company may be

going for 0.5 times revenues, another for 2 times revenues. If the first gets its costs in line and the second attracts new competition, profits will rise faster at the first.

Take SCI Systems, a manufacturer of electronics and electrical equipment. A year ago SCI showed 12-month trailing earnings of 7 cents a share and traded as low as 6½. At 93 times earnings, SCI certainly seemed no bargain, but looked at another way it was dirt cheap; its market capitalization was only 13% of its revenues. In other words, it had a PSR of 13 cents on the sales dollar, while the average PSR for its industry group was 60 cents on the dollar. Ken Fisher's hunch that cost-cutting would eventually kick more revenue to SCI's bottom line was correct. SCI's 12-month earnings rose

to 30 cents a share, causing the stock to triple.

We refined Fisher's ratio by including debt in the price tag affixed to a company. Thus, if the firm's share valuation, debt outstanding and sales volume are each \$1 billion, it really costs \$2, not \$1, to buy \$1 of sales revenue at this firm. We call this the "total price/sales" ratio. All of the prospects below show a total PSR of 1.0 or less.

Next, we compared the total PSR to the average ratio for the firm's industry. The result is shown as the "relative PSR"; in all cases this ratio is 1.0 or less. Finally, we limited the list to companies with recognized prospects for a rally in earnings; all are expected to earn money in 1993, according to consensus earnings forecasts.



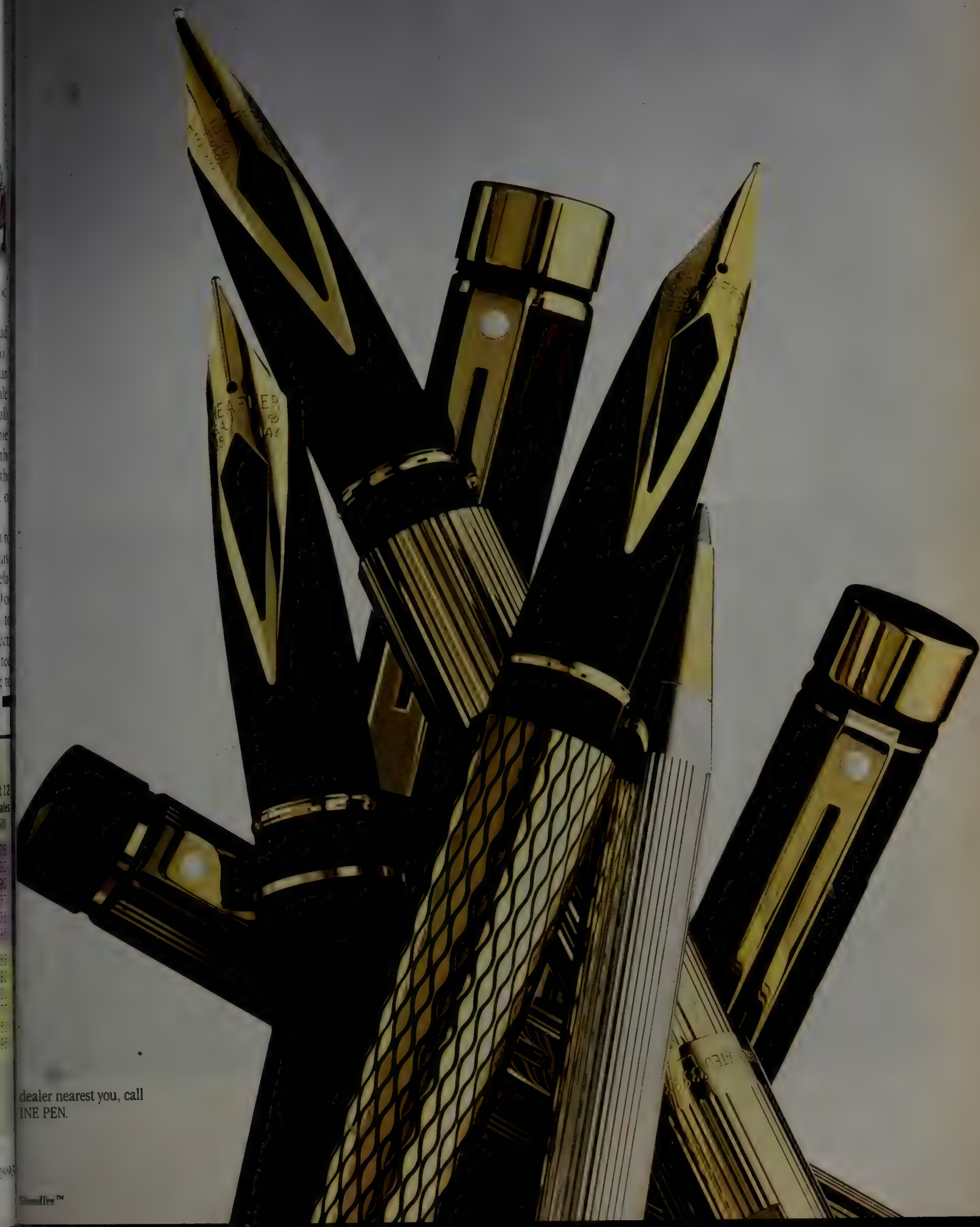
Recovery candidates

Company/business	Recent price	Earnings per share latest 12 mos	1993 estimate	Estimated 1993 P/E	Price/sales ratio ¹ total	relative to industry	Price/book ²	Debt/equity	Latest 12 mos sales (\$mil)
Crown Central Petroleum/petroleum refining & marketing	15¼	\$-1.81	\$1.83	8.3	0.12	0.28	0.49	22%	\$1,778
Charter Power Systems/batteries & equip	5	-0.27	0.50	10.0	0.38	0.44	0.94	63	132
El Chico Restaurants/Tex-Mex restaurants	13¼	-0.18	0.75	17.7	0.66	0.49	2.49	5	90
Summagraphics/scanners, digital tablets and CAD	6¼	-0.07	0.62	10.1	0.40	0.66	0.95	17	77
Sunbelt Nursery/retails lawn & garden products	6¼	-0.43	0.50	12.3	0.39	0.68	1.96	3	136
Keithley Instruments/electronic test equip	12¼	-3.43	0.92	13.2	0.55	0.69	2.07	34	95
Golden Poultry/poultry & meat processing	10%	-0.04	0.40	25.9	0.46	0.72	1.60	44	353
Sheldahl/electronics	8%	0.00	0.53	15.8	0.64	0.74	2.23	73	82
Data General/computer file-servers	11%	-2.01	0.33	34.5	0.50	0.81	0.88	37	1,101
Devcon Intl/land development & contracting	8½	-1.41	0.50	17.0	0.72	0.92	0.52	25	77
Gleason/equip for gear manufacturing	15%	-0.21	0.75	20.5	0.70	0.95	0.74	24	151
Kulicke & Soffa/semiconductor production equip	8¼	-1.56	0.31	26.6	0.97	0.97	1.68	69	95

¹Debt plus market value of common, divided by sales. ²Book value excludes intangible assets such as patents and goodwill.

Sources: Institutional Brokers Estimate System and Value Line via Lotus One Source; *Forbes*.

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How do you make a German cordial with medicinal properties into a bestseller with the college crowd?

Meet the Jägerettes

By Christopher Palmeri

JÄGERMEISTER is a reddish-brown German cordial that tastes like a mixture of root beer, black licorice and Vicks Formula 44. Older Europeans have been sipping it—warm, after dinner—since 1935. Jägermeister's alcoholic content is 35%, but Europeans drink it less for the buzz than for the medicinal value of the drink's 56 herbs and spices.

That sure isn't what sells Jägermeister in the U.S. Witness the scene on a

recent Thursday night at Yak-Zies Bar-Grill, a watering hole popular with singles on Chicago's North Side.

Forget about medicinal values. A boisterous crowd is rapidly downing shots of ice-cold Jägermeister, served in test tubes at \$2 each. Throughout the bar, six bubbly "Jägerettes"—lithe coeds clad in black bodysuits with plunging necklines—hand out Jägermeister T shirts and cowboy hats. Jägermeister Frisbees fly.

Can all this hoopla really sell cordials? It can and it does. Last year Jägermeister sales jumped more than 30%, to 350,000 cases. From almost nothing in 1980, Jägermeister is now the nation's number four imported cordial, behind Kahlua, Bailey's Irish Cream and Grand Marnier, but ahead of Sambuca Romana and Amaretto di Saronno, according to liquor industry watchers M. Shanken Communications. This year Jägermeister is likely to overtake Grand Marnier. Jägermeister's importer, New Rochelle, N.Y.-based Sidney Frank Importing Co., took in some \$42 million last year, 80% of that from distributing Jägermeister.

Sidney Frank, 73, got his first taste of Jägermeister in a bar in New York City in 1974, a few years after leaving Schenley Brands to set up his own liquor importing and distribution company. He visited Jägermeister's distillery in Wolfenbüttel, near Hamburg, and convinced the Mast family, which owns the brand, to give him the distribution rights to the southeastern U.S. But the last thing drinkers in



Jägermeister's Sidney Frank and the slinky Jägerettes

Sophisticated? No, but who ever said college kids were sophisticated?



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They know that 1-2-3 for Windows now includes the *most* asked-for enhancements.

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Lotus.

1-2-3 for Windows

the sweltering South wanted was a warm Jägermeister. "I didn't know how to sell it," confesses Frank.

Frank's luck changed when he found a bar on New Orleans' Bourbon Street that served up cold Jägermeister shots, poured from a bottle kept in the freezer. Wunderbar! Frank told other New Orleans bars to serve the drink cold, and pretty soon college kids down for the Sugar Bowl were taking bottles of Jägermeister back to school.

By 1985 Frank had acquired the distribution rights for the rest of the U.S. and was ready to come back to New York City. Again he stumbled. An expensive ad campaign featured a series of people making silly faces and proclaiming silly reasons for liking Jägermeister. Says Frank: "People told me they saw the ads, but nobody ever bought the stuff."

So Frank fell back on a well-tested lure for young, restless males: girls.

In 1988 Frank hired his first Jägerette. He outfitted her in sexy clothes and told her to spray shots into people's mouths with a specially configured bottle. The head Jägerette then recruited other young women whom she met in bars. Frank now employs 400 Jägerettes in 25 states, who make \$25 an hour for three hours of zany work a night.

The Jägerettes cost Frank more than \$1 million a year. Much of the rest of his \$6.5 million annual marketing budget goes into promotional trinkets for Jägermeister parties at bars—the Frisbees, T shirts and pennants. A "Jäger Madness" kit contains a button with an arrow that can point to two possible outcomes: "I buy" and "you buy."

Unsophisticated? Yes, but whoever thought college students sophisticated? "The kids love it," gloats Frank. And those sales figures back him up.

This year Frank is expanding his reach into niche markets: rock 'n' roll clubs, black nightclubs, gay bars. For the latter, Frank is now hiring "Jägerdudes."

When asked how long he thinks he can keep up this kind of razzle-dazzle in the treacherous world of fad drinks, Frank turns somewhat defensive. "Everything starts as a fad," he snaps. "Coca-Cola was once a fad." Sidney Frank is thinking big. ■

Aging baby boomers are dropping out of health clubs and buying lots of exercise equipment to use in the privacy of their homes. So why aren't the equipment makers making much money?

Fancy coatracks

WINTER'S CHILL is in the air, the was-sail has worn off, and lists of New Year's resolutions stare grimly back from the refrigerator.

It's time to lose weight and get fit. Which means marketers of stair climbers, exercise bikes, weight machines and similar instruments of self-torture are at the peak of their frenzy to wrest anywhere from \$250 to \$5,000 from you to counter the ravages of gravity and time.

Sales of home fitness gear always spike in the first quarter of the year, thanks mainly to all those well-meaning New Year's resolutions. Overall, the home fitness market has grown around 10% a year for the past five years, barely pausing for breath during the recession. Sales last year are estimated to have risen 6%, to around \$2.2 billion at retail.

The growth has been fueled in part by a growing demographic phenomenon—health club dropouts. These are the people who as taut-limbed 20- and 30-somethings helped pump up the health club craze ten years ago. Today they're older, busier, pudgier and richer. And less interested in socializing and putting their bodies on display at the local health club.

"If you're 40 years old and making \$250,000 a year, you don't want to go to a club and sweat next to a 22-year-old kid in a bodysuit," says Jeanne Hopkins, director of sales and marketing for Trotter. Factor in the increased time demands from high-powered jobs and young families, and the perfect customer for Trotter's \$3,400-to-\$6,000 in-home treadmills emerges.

Trotter's ad theme: "For those who consider exercise a matter of privacy." Hopkins says that Trotter's sales grew 24%, to around \$25 mil-

An ad for Trotter's home treadmills
No sweating next to kids in bodysuits.

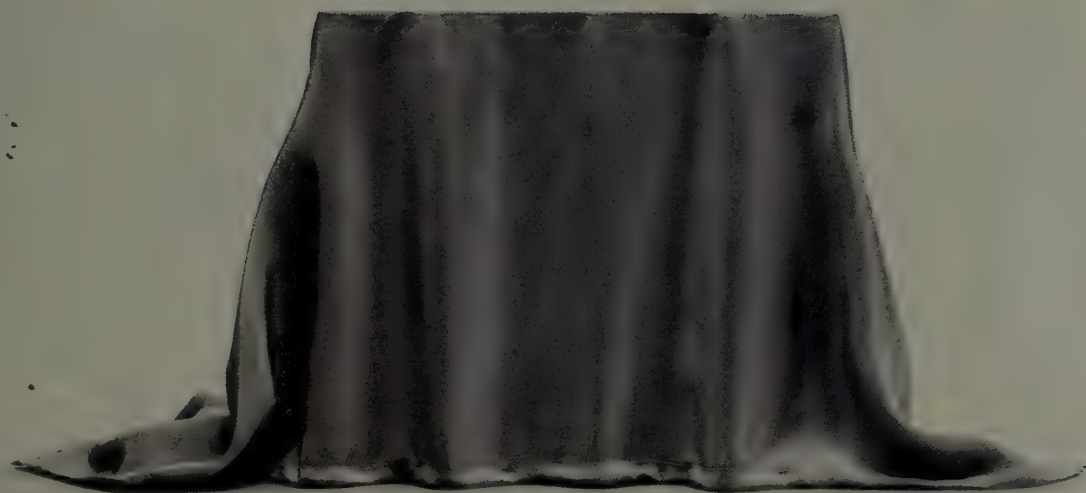
lion, last year.

Of the 130 or so makers of home exercise equipment, roughly a third have entered the business within the past two years. One newcomer, San Diego's Aerowind Corp., is beating swords into stair climbers. Aerowind is the largest subcontractor to Hughes Missile Systems for the Tomahawk cruise missile. But 3½ years ago a dimming future for military hardware prompted Aerowind to get into making stair-climbing machines, which can be machined on much of the same equipment used for the Tomahawk.

Aerowind is selling a \$1,600 stair-climbing unit for the home, and a \$4,000 model for health clubs and hospitals. The big-ticket model includes a built-in television, VCR and videogame.

Unfortunately, the new competition in the home fitness market is

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No assembly required, as seen on TV
Home fitness discovers advertising.

muscle-building equipment isn't easy, says William Smith, DP's director of marketing. When DP introduced Bo Jackson signature line of equipment, it flopped. "It turns out Bo is a better spokesman than he is a brand," says Smith.

Several equipment makers are trying to differentiate their products another way, through sleek design and by loading them up with high-tech gadgetry. For example, Vectra Fitness makes its weight-training machines with elegant, sculpted steel columns. "We can't reinvent the exercise equipment, so we try to reinvent the way it looks," says marketing director Scott Logan.

For its \$1,500-a-copy treadmill, Diversified Products looked into licensing the kind of windshield video screen that Hughes Aircraft uses in jet fighters. However, the added cost would have made the product virtually unsalable.

By all accounts, the exercise equipment company that has most successfully developed a brand name is Chaska, Minn.-based NordicTrack (FORBES, Mar. 16, 1992). A division of CML Group, NordicTrack has spent more than \$100 million on advertising since 1988 to tout its comparatively austere, unelectrified exercise machines.

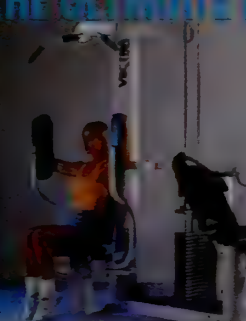
Sales for the fiscal year ended last July 31 hit \$267 million, up from \$3 million in 1988. "We're trying to foster the impression that there's no body else," says President Jim Bostic.

But even Bostic seems to feel the exercise equipment market is rapidly maturing. With the estimated \$3 million-plus it's spending this year, NordicTrack is extending its brand into food with a line of cookware called Healthy Kitchen. It is also opening fast-food outlets dubbed Healthy Express.

Here's another factor that limits the equipment makers' growth potential. By the spring of every year, many of the machines they sell early in the year are gathering dust or serving as expensive coatracks.

"We sell a lot of stuff to people who never use it," concedes Universal Gym's Nelson. Nelson knows about this. His wife uses his own home gym to hang laundry on. —J.L.

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Ultimate fitness—and Body by Jake
Trying to stand out in a crowded market.

turning exercise equipment into a commodity business, with few companies making much money. "A lot of people look at the demographics and think there must be a gold mine here, but there isn't," grouses Curtis Nelson, director of sales and marketing for Universal Gym Equipment Inc., which sells weight-lifting machines that retail for between \$2,000 and \$5,000. Since 1987, Universal's gross margins have slipped from 41% to 37%. Aerowind expects its fitness division to run at a loss for the next couple of years.

To distinguish their products from the pack, the equipment makers are beginning to spend big money on

advertising. Diversified Products, Inc., which makes a line of less expensive (\$19.95 and up), mass-market exercise machines, is spending \$3 million on consumer advertising this year. Last year it spent nothing.

Diversified Products has also formed a partnership with USA Direct—the people who hawk the ubiquitous Juiceman juice-making machine on late-night television infomercials—to sell its new Body by Jake equipment line to consumers directly via an \$8.5 million ad effort. The line ties in with Jake Steinfeld, a trainer who parlayed his pectorals into a television career.

But creating brand awareness for

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Must the river water New Mexico's Indians use in their ceremonies be made potable? Yes, says the EPA—and the city of Albuquerque shudders.

Riparian extremism

By Nina Munk

IN DECEMBER the Environmental Protection Agency opened another Pandora's box. The agency ruled that under the 1987 Water Quality Act, American Indians living on the Pueblo of Isleta reservation have the right to demand that water taken straight from the Rio Grande as it passes through the pueblo's territory be pure enough to drink.

The city of Albuquerque (pop. 589,131) has since filed suit, claiming that the EPA ruling is both unscientific and arbitrary. Albuquerque, which is about 5 miles upstream from the Isleta reservation (pop. 2,915), would have to pay a horrendous price if forced to comply with the Pueblo's demands.

Trying to make the river water drinkable could cost the city up to \$250 million—nearly as much as Albuquerque spends each year operating its city government. Gene Leyendecker, manager of the wastewater utility division in Albuquerque's public works department, estimates that such a river cleanup would raise the average water bill for Albuquerque households from \$25 a month to \$35. And even after spending all this mon-

ey, there is no certainty that the water will be pure enough to drink.

The 1987 Water Quality Act was sponsored by then Representative James Howard (D-N.J.). Ronald Reagan vetoed the bill, saying that it was "loaded with waste and larded with pork." It was, but then who could argue against the sacred cause of clean water? Congress easily overrode the veto.

Embodied in the law's fine print is a little-noted provision that gives American Indian tribes the same rights to adopt water-quality standards as a state enjoys. Thus New Mexico can adopt one standard, and the state's Indian reservations can adopt a higher standard if it pleases them to do so.

That's just what the Isleta Pueblo did—abetted by Albuquerque lawyer Lamar Parrish. Then, late last month, the EPA agreed that a second reservation, the Pueblo of Sandia (pop. 3,971), just upstream from Albuquerque (*see map*), has the right to set its own water standards, too. A third reservation, the Pueblo of San Juan, has also demanded the right, and will probably get it.

Nobody claims that any of the Pueblos lacks sufficient potable water. But this isn't about needs; it is about "rights." Lamar Parrish, the lawyer who represents all three reservations claims his clients need potable river water for, among other things, ceremonial use.

"What we're facing is the possibility of having dozens of different water quality standards in this state," says Ronald Curry, deputy secretary for New Mexico's environment department. "It could be chaos." Says Albuquerque's Gene Leyendecker "We're all kind of baffled."

Among those especially baffled are business people. Companies that apply for state- and EPA-approved permits to discharge waste could be required to seek Pueblo approval, and be held to ransom for it.

Even the EPA bureaucrats sound worried. "The intent of the Water Quality Act was not to make every waterway drinkable," says EPA spokesman David Bary. "You have to be realistic."

Not if you speak in the name of environmentalism or Indian rights, you don't.



Robert Mansfield/Forbes

Three Pueblo reservations and the river they seek to clean up

Making the river water drinkable could cost Albuquerque up to \$250 million.



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*High returns from lower-rated securities are, in part, the result of lower market prices, reflecting the higher risks associated with these securities.

A few years ago it seemed that Arrow Electronics' Steve Kaufman had no choice but to retrench, but his gut told him to do otherwise.

"I am a growth guy"

By Norm Alster

WHEN RUNNING a business it sometimes pays to forge ahead no matter how bad things look. Stephen Kaufman took that risk. Looking back, it was exactly the right thing to do.

Kaufman, 51, is chief executive of Melville, N.Y.-based Arrow Electronics, Inc., the \$1.6 billion (estimated 1992 sales) distributor of semiconductors and other computer parts. In 1987 Arrow was in trouble. Still hurting from a tragic hotel fire in 1980 that killed several of its top managers, the company was limping through its third consecutive year of heavy losses. Its debt—much of it at rates as high as 15%—weighed in at twice its equity. "In this industry," says Kaufman, "no one had ever taken on more debt

than equity."

Kaufman figured he had two choices. The obvious one: shrink the company, raise cash and pay off debt. Or he could barrel forward by borrowing still more money and making yet another acquisition.

"I am a growth guy by nature," says Kaufman, who decided to take the latter route.

In 1988 Kaufman managed to borrow another \$110 million from a group of lenders led by First National Bank of Chicago. He used the money to acquire Kierulff Electronics, a big California-based distributor. As if by a miracle, within a year Arrow's bottom line went from a \$16 million operating loss in 1987 to operating profits of

\$10 million.

But this was no miracle. It was a straightforward case of economies of scale. Arrow gained Kierulff's customers but was able to shut down all of its four warehouses and move the business into Arrow's warehouses.

In September 1991 Kaufman pulled off a second great acquisition when Arrow gobbled up Lex Electronics, another large distributor. Savings from cuts in personnel, warehousing, information systems and other expenses brought overhead down to just 11% of revenues on incremental postmerger sales, versus 21% before the merger. Lex added around \$30 million to Arrow's bottom line.

Seymour Schweber, an industry old-timer whose former company was bought by Arrow in 1991, gives Kaufman a backhanded compliment. "Arrow's profit is made in economies of scale," says Schweber, "which in plain English means firing as many people as you can."

But there's more to Kaufman's success than chopping heads. Arrow stocked some 300,000 different semiconductors and other computer parts and sells them to more than 120,000 customers worldwide. To manage its complex inventory and customer base, Arrow was an early investor in automated warehousing and in centralized on-line computer systems. Without this foresightful investment in information systems and hardware the Kierulff and Lex acquisition would have been pointless no matter how many pink slips Kaufman was willing to hand out.

Like most successful people, Kaufman has benefited from luck as well as a good head for business. Starting in mid-1991, low interest rates and rising equity market set off a chain reaction of good fortune. As Arrow's stock began to rise, Kaufman quickly issued new shares and then used the proceeds to retire Arrow's high coupon debt.

Deleveraging created additional demand for Arrow's securities. Last year the company sold \$125 million in convertible subordinate bonds at a cost of just 5.75%. Debt now comes to 65% of equity—quite a reversal from 1985, when Arrow had \$3 in debt for every \$1 of equity.



Arrow Chairman John Waddell (left) and Chief Executive Stephen Kaufman
To reduce debt they had to first take on more.

educated at Massachusetts Institute of Technology and Harvard's business school, Kaufman worked in Europe as a McKinsey consultant during the 1970s. He arrived at Arrow in 1982 as a confirmed internationalist. At that time, no other American electronics distributor had invested consistently in the fragmented European market, but Kaufman was convinced that Europe's internal trade barriers would fall and that Arrow could score big in Europe. Beginning with its 1985 purchase of 40% of leading German distributor Spoerle Electronic, Arrow set up shop in leading European markets. By taking large but minority stakes in his biggest European investments, Kaufman has been able to retain the local entrepreneurs who understand their markets better than he could hope to.

Arrow sees tremendous opportunities for improving distribution efficiency in Europe. Today, says Kaufman, it takes three days to ship freight 10,000 miles by truck. And the overnight air freight package that can be shipped for \$7 or \$8 in the U.S. costs \$15 or \$40 in Europe. Already Arrow, with \$615 million in European sales, is the continent's leading distributor. Arrow's arch U.S. rival, Avnet, was determined to expand overseas and is now hurrying to catch up.

Arrow is expected to report earnings of around \$45 million for 1992, about \$1.55 a share. This year Smith Barney analyst Ann Schwetjke thinks it will earn \$2.25. But with the company's stock now trading at around 31, down from 35 in early 1991, Schwetjke doubts the stock will go much higher in the near future.

The risk Steve Kaufman ran back in 1987 paid off in another way. While he was rolling the dice, conservatively financed Avnet, for decades the leading electronics distributor, eschewed large acquisitions. Now, with worldwide revenues expected to top \$2 billion in 1993, Arrow has pulled the breast of Avnet.

"The ship has come in at Arrow," says Chairman John Waddell, who left Wall Street in 1968 to purchase Arrow with two partners, both of whom perished in the 1980 fire. "But some of us have been standing at the dock for 25 years." In Steve Kaufman, Waddell has a good captain.

It's tricky to impose financial discipline without stifling managerial initiative. But, as Interpublic shows, it can be done even in a volatile business.

Sibling rivalry

By Gretchen Morgenson

IT'S NOT EASY running an international agglomeration of advertising agencies: WPP Group and Saatchi & Saatchi have gotten into deep trouble with their collections of agencies. That makes the accomplishments of Interpublic Group of Companies Chairman Philip Geier Jr. and Eugene Beard, its chief financial officer, all the more remarkable.

In 11 years under Geier and Beard, Interpublic's revenues have more than tripled, to an estimated \$1.9 billion last year; return on equity has

averaged 18%. Interpublic's stock has climbed over fifteenfold since 1982, to a recent 34³/₈, 24 times trailing earnings.

Saatchi & Saatchi, hobbled by years of financial turmoil and client defections, lost \$218 million in 1991; its stock recently traded at 7⁵/₈, down from a high of 22¹/₂ in 1991. WPP Group is in even worse shape: Its stock recently traded at less than 2, down from a 1990 price of 24. The company lost \$51 million on revenues of \$2.25 billion in 1991.



Philip Geier Jr.,
Interpublic's
chairman

**Don't just sell
advertising ideas,
sell the idea of
advertising.**

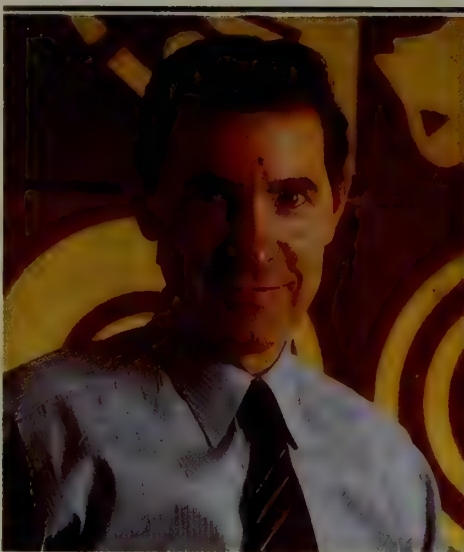
The secret to Interpublic's relative success is simple enough. Simple to describe, but hard to execute. It involves a combination of tight financial controls at the parent with creative autonomy at each of the four agencies that make up Interpublic. Essentially, the parent watches the numbers and lets the agencies do what they will so long as they attain the desired numbers. Interpublic owns: New York-based McCann-Erickson, a 65-year-old but still strong outfit; New York-based Lintas Worldwide; California-based Dailey & Associates; the U.K.'s Lowe Group.

Each of the four competes with its siblings for accounts. Combined, they serve 4,000 clients in 91 countries.

While each agency has its own style, all must toe the line financially. "While [Interpublic's] new business has tripled in the past ten years, corporate budgets have stayed flat in the last five years," Chief Financial Officer Beard says. You have to stay lean to survive in this business. After a decade of healthy annual growth in the 1980s, the advertising industry went into a slump in 1990, and is picking up only meagerly. Worldwide ad spending, nearly \$300 billion last year, is likely to rise only 4.7% in 1993, says James Dougherty, an analyst at Dean Witter Reynolds. And the clients are getting chintzier with the agencies. This year Interpublic will book about 14% of billings as revenues; that's down a full percentage point from a decade ago.

Executives at Interpublic's agencies are acutely aware today that besides selling advertising ideas, they must increasingly sell the idea of advertising itself in a era of corporate cutbacks and competition from other forms of product promotion. They whip out case studies: A 12.4% decline in ad spending on 12 consumer goods products in the mid- to late 1980s resulted in a 20% drop in market share; when a marketer of salad dressing reduced ad spending by 27%, its product's share fell 45%. Indeed, after several years of reduced ad expenditures, Geier says: "Companies now realize how brand franchises have been affected. The ones that didn't cut advertising are better off than those that did."

Geier's pitch seems to be working:



Eugene Beard, chief financial officer

Have the right incentives.

In 1991, a year in which spending declined in seven of the top ten U.S. advertising categories, Interpublic won a record \$800 million in net new billings. Last year it won an estimated \$825 million, a little more than half from existing clients. While overall food company advertising declined 10% in the first half of 1992, Geier reports that his firm's larger packaged goods clients, such as Coca-Cola, Unilever and Nestlé, upped their spending to 9% in 1992.

As a truly international collection of agencies, Interpublic has a lot to offer companies that are seeking to expand geographically. Swiss-based food giant Nestlé works with both McCann-Erickson and Lintas. Peter Brabeck, executive vice president at Nestlé, explains, "Our agencies help us to cross-fertilize our business internationally."

Some branded-goods markets are very local—which is why multinationals need agencies that have branches everywhere. Lintas set up a large Belgian office to support detergents sold by Unilever in the rest of Europe. In North Carolina, Interpublic acquired the local agency of Long, Haymes & Carr to maintain close contact with Hanes, the Winston-Salem-based division of Sara Lee.

How does headquarters keep the creative types in line? Management incentives established in 1984 by Geier and Beard make sure employees focus on profitability and growth. Five different formulas calculate re-

wards for employees.

The compensation is based on long-term performance—or at least long-term as understood in the world of advertising: four years' performance but awarded every two years. This helps keep managers from jumping ship, an ever-present agency business threat. Employees are rewarded with stock and bonuses, not only for making their numbers but also for qualitative results, such as setting up succession plans and servicing clients. "We're very big on trying to keep people," says Geier. He has been helped by a rising stock price; employees own 17% of Interpublic's outstanding shares.

There's a healthy amount of rivalry here. The incentive formulas reward a Lintas account executive for winning a new client in competition over McCann, or vice versa. For example, last year McCann won the \$30 million Goodyear account in a race that included Lintas.

Tight-fisted Beard runs Interpublic's in-house acquisition team; at no time during the past decade have investment bankers been invited to advise Interpublic on any of its more than 100 purchases. Wisely, Beard wants to make his decisions without prodding from Wall Street types anxious to close deals.

Keeping his head while WPP and Saatchi lost theirs, Beard never paid more than eight times cash flow for a company and avoided altogether sales promotion firms, public relations agencies and training companies. Says Beard: "I could never justify 20 or 30 times earnings for an investment hung to one person who would run out the door as soon as the deal was done."

Interpublic made only acquisitions that would place it in new markets or strengthen existing client relationships. Examples: the 1991 purchase of Brazil's MPM Group, to enhance Lintas' Unilever business, and Ronnberg & Co. in Sweden, to help cement McCann-Erickson's new relationship with McDonald's.

It's tricky in any business to balance the need for creative independence in a far-flung enterprise with the need for accountability and controls. Interpublic shows that it can be done even in a particularly volatile business. ■

*France has never been
so close to home.*



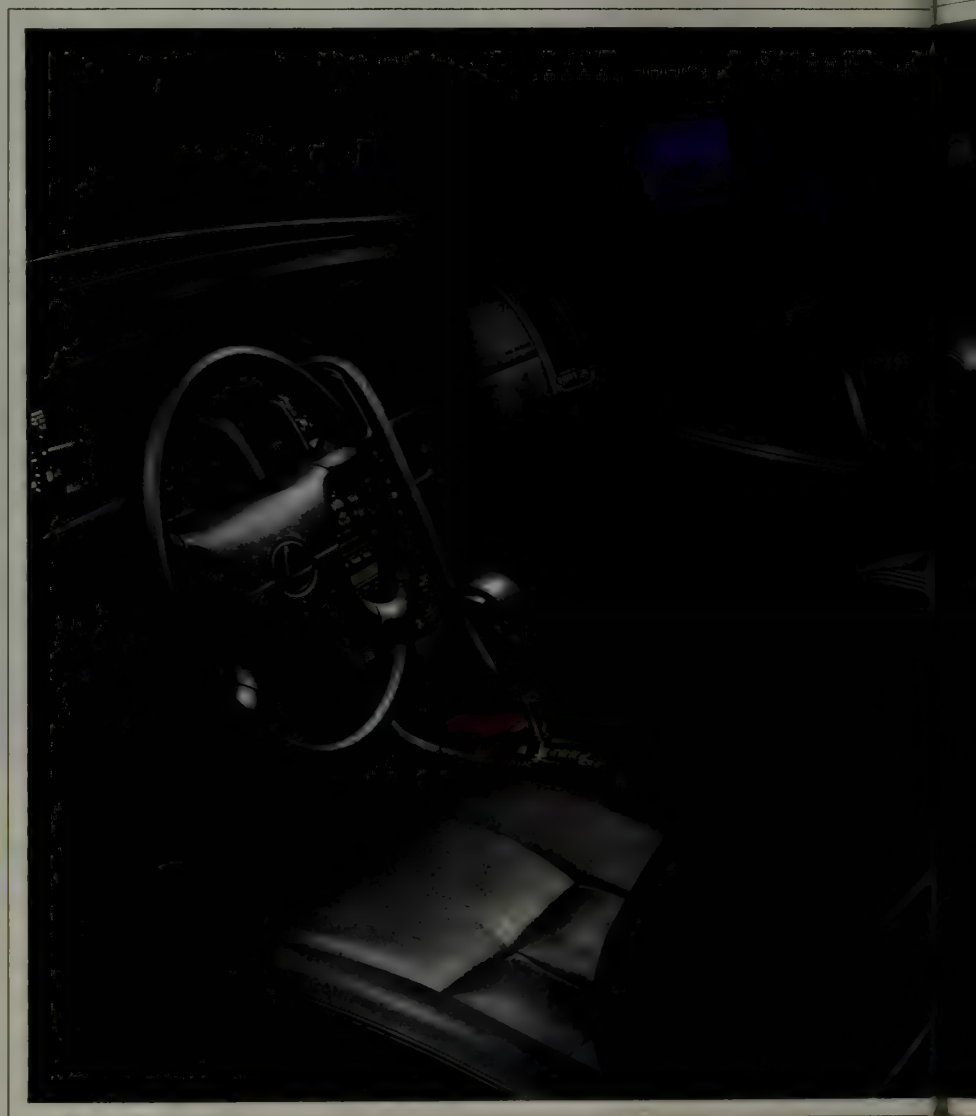
From the moment you step into a Hotel Sofitel, you notice something different. There's something more inviting. More charming. More French. It could be the over-stuffed chairs. Maybe it's the truffle you find on your pillow. Perhaps it's the aroma of freshly baked baguettes. Although you can't pinpoint it, you welcome it wholeheartedly. As we do you with a "bonjour." You have found a new way to do business traveling. And from now on, you have found a new home when you are away from yours. Just ask your travel agent or call 1-800-SOFITEL.



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— NORTH AMERICA —

A Cabin? Or A R

One day last December, the classical guitarist Manuel Barrueco performed and recorded a suite by the 19th-century Spanish composer Isaac Albéniz for later broadcast on radio stations across the country. By itself, this fact is not unusual. What is unusual is that his performance wasn't recorded in a sound studio. It was recorded in the cabin of the 1993 Lexus LS 400. At 55 mph.

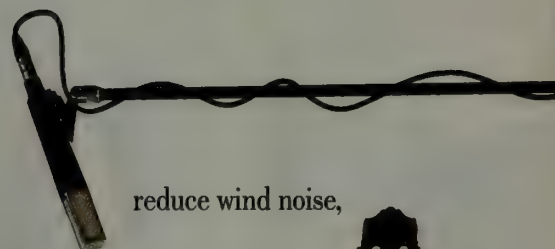


Outside: the rustling of leaves caused by the speed generated from the

32-valve, 250-hp V8.

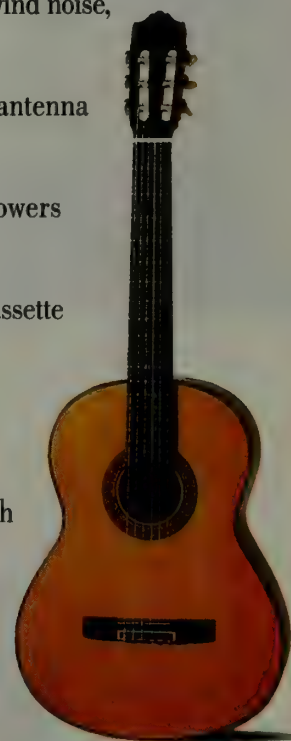
Inside: the sweet and pure notes from Mr. Barrueco's handmade, cedar-topped guitar.

Recording Studio?



reduce wind noise,
even the radio antenna
automatically lowers
whenever the cassette
or CD is played.

All of which
means that the
cabin of the



1993 Lexus LS 400 is a great place to

listen to your favorite recording artists.

Whether they're sitting beside you, or
emanating from the audio system.

How could we be so confident that

A steel-resin-steel sandwich insu-

the sound from one environment would

lates the cabin from the engine and

not intrude too

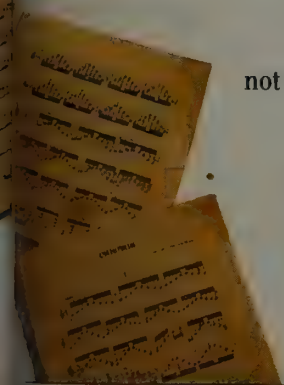
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under the hood, in the dash, under the

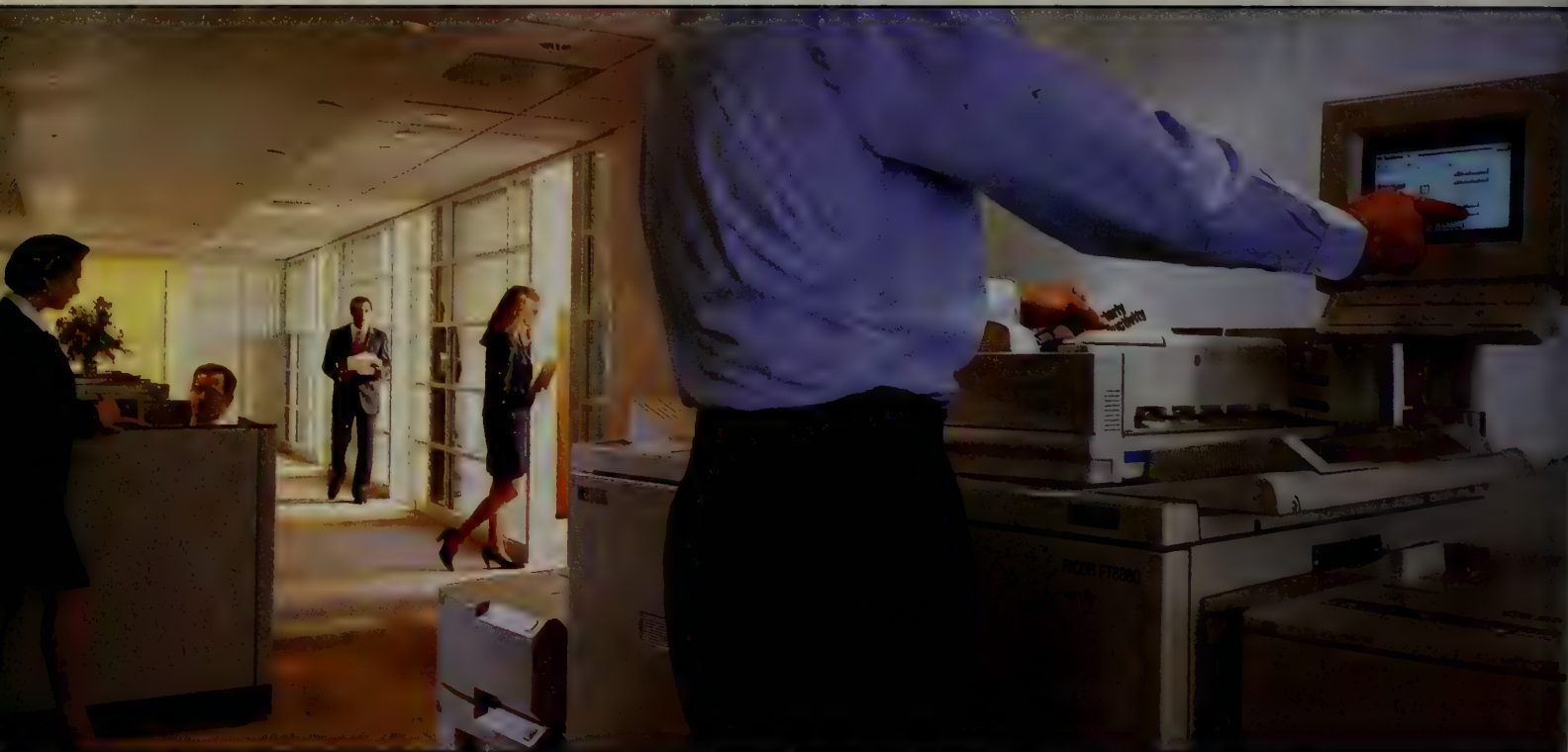
the other?

floor, and within the roof pillars. And to




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RICOH FT8780

RICOH FT8880

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THE NAME TO KNOW

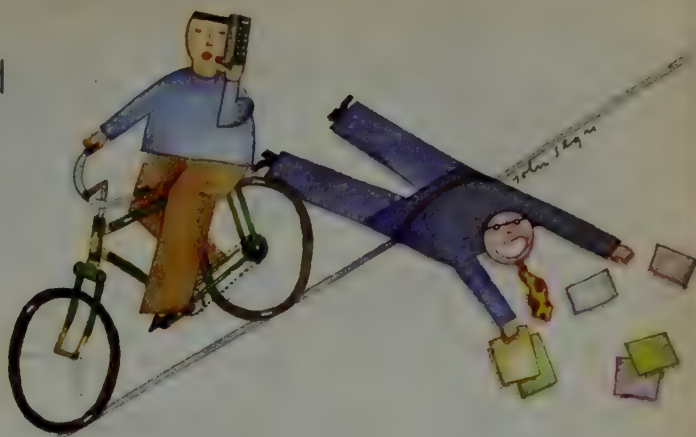
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1 - 8 0 0 - 6 3 - R I C O H

Here's a story stock P.T. Barnum would have liked when he said there's a sucker born every minute.

China calling

By Richard L. Stern and Amy Feldman



GET ON THE PHONE quick, pigeon, and call your broker: Here's a small, over-the-counter company with rights to operate cellular phone service in markets that embrace 300 million people, including the mighty cities of Shanghai and Beijing. If every one of those Chinese makes just one cellular telephone call per day. . . .

What's the company's name? MTC Electronic Technologies Co., and it's headquartered near Vancouver, home to a wild and woolly stock exchange.

Last October a Japanese firm in New York, Daiwa Securities America Inc., filed a preliminary prospectus to sell 1.2 million new MTC shares to the public on top of the 8.2 million already outstanding. Daiwa later increased the size of the offering to 5 million shares. Although the offering has not yet been made, announcement of it sent MTC's shares rising from 8¾ to 27½ in December.

FORBES hopes you weren't one of the buyers. MTC has "exclusive rights" to nothing. "It is not possible for a foreign corporation to own or operate a telephone system [in China]," says Beijing-based Zhao Yong, a spokeswoman for the Ministry of Posts & Telecommunications.

In Shanghai, Zhao Xing Shang of the Shanghai Post & Telecommunication Administration explained that a foreign company could get approval to do financing of telecommunications or set up a factory to produce cellular equipment and telephones, but not to operate the system itself. These officials should know. Their agencies are the ones that would have to approve such joint ventures.

In its preliminary prospectus MTC says it will sell thousands of cellular phones in China at \$1,000 apiece. Yet brand-name suppliers, including Motorola, LM Ericsson, NEC and Oki,

have already sold some 100,000 cellular telephones in metropolitan areas throughout China. Motorola wholesales its phones to Chinese government entities for about \$500, and the government resells them to the public for more than \$2,000. In any case, MTC says its cellular phones would come from NEC parts.

MTC's president and chairman is Miko Leung, a 49-year-old, chain-smoking, Hong Kong-born entrepreneur. Leung has a habit of promising more than he can deliver.

In 1987 MTC announced an exclusive distribution deal to import 1.2 million televisions into the U.S. and Canada from China for \$161 million. Total MTC sales from 1987 to 1989: a mere \$64 million. MTC lost about \$400,000 in the same period. Having risen when the TV story was released to 6½ a share, from 5½, MTC's shares slid back to just 2½ in October 1987.

Most of MTC's actual business has involved selling fax machines into China while exporting low-priced TVs and other consumer electronics from China to North America.

In 1991, to get away from the Vancouver Stock Exchange's unsavory reputation, Leung moved MTC Electronic to trading over-the-counter on the Nasdaq market. It hasn't improved the way the company—or its friends—do business. During a recent road show for the stock in Chicago, with an MTC executive present, a Daiwa analyst was overly optimistic. He projected earnings of \$9 per share by 1996, largely based on profits from fees from cellular subscribers in China.

A marketmaker of MTC, Pennsylvania Merchant Group Ltd., projected last October that for fiscal 1994 some 60% of operating profits, or \$11 million, would come from cellular hand-

sets on MTC Electronic's own systems in China.

Chairman Leung was not available for FORBES, and Daiwa spokesman Stanley Ginsberg says he can't comment on MTC. But Daiwa seems concerned about what has been going on at MTC. It has now issued three revisions to the original prospectus, the latest on Jan. 19. Gone are claims about exclusive agreements, and what had been presented as final contracts are now only maybe contracts.

The latest prospectus even admits that MTC will be paid by barter, in the form of consumer goods it will export to North America.

In an earlier prospectus MTC claimed it already was operating a test system for 1,000 users in Shanghai. Neither Chinese government officials FORBES spoke to nor executives for other foreign telecommunications companies in China know where that test system for 1,000 users is situated.

Here's one thing for sure. MTC Electronic has leased some equipment to the Shanghai city government for expansion of its cellular system built by Sweden's Ericsson. Motorola built and supplied the other half of this European-style cellular system.

But if the Chinese aren't buying MTC's China story, foreign investors apparently are. MTC's stock was still trading recently at nearly 20. At that price the company has a market capitalization of \$200 million. Revenues: \$43 million. Profits: \$2 million, or 47 cents a share.

Short traders, such as Gilford Securities in Chicago, smell a killing. The short position recently was about 257,000 shares. Daiwa apparently intends to proceed with its offering. It looks as if some sheep are about to be shorn. ■

Companies accused of wrongdoing often investigate themselves. But are such probes convincing—even from the most respectable of lawyers?

Who pays the piper . . .

By Dana Wechsler Linden and Neil Weinberg

WHEN FACED WITH possible wrongdoing these days, many companies quickly call in a prominent lawyer as special counsel. The attorney investigates, then reports to a special committee of the board. If the report is favorable to management it can serve as a stamp of approval to ward off shareholder suits—and often shore up a flagging stock. Among the major companies that have conducted such

probes in the last few years are Salomon Brothers, General Electric and Dow Corning.

But the practice remains controversial. No matter how much integrity the lawyers have, outsiders remain aware that the lawyers are investigating their own clients. As the old saying goes: "Who pays the piper calls the tune." This is not literally true in these cases, because no reputable law-

yer would deliberately cover up wrongdoing. The suspicion remains, however, that at the very least the investigator is favorably inclined toward the investigated.

Paul Wright, a former Securities & Exchange Commission staffer who is a member of the American Bar Association committee on law and accounting, points out: "You can call in the best lawyer in the world and restrict the scope of the investigation so you know he's not going to find anything." Especially when the lawyers doing the actual investigating are typically young associates recently out of law school who don't know that much about business.

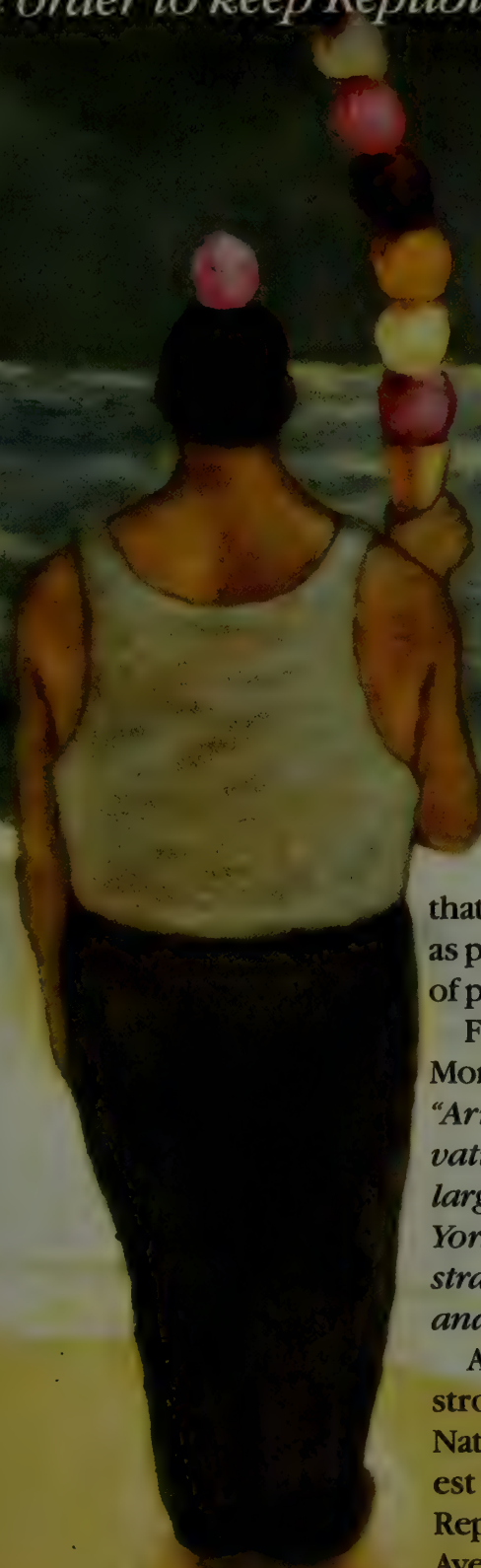
"There's always been doubt about whether these [investigations] are whitewash operations," says Charles Wolfram, a legal ethics professor at Cornell. "If there's also the hope of future business, it puts a light to the outside that it is indeed a whitewash."

At a time when parts of the legal profession are facing tough times, billings in these investigations run



Susan Steinlamps/SABA
SEC former general counsel Harvey Pitt
A self-described Boy Scout who's called in to investigate corporate right from wrong. Yet his work raises troublesome questions of its own.

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from tens of thousands to several million dollars. Some of the best and most reputable lawyers in the country are playing the game. Washington lawyers like former U.S. Attorney General Griffin Bell of King & Spalding and former Securities & Exchange Commission lawyer Arthur Mathews of Wilmer, Cutler & Pickering take in a steady stream of special investigative work these days.

New York's Wachtell, Lipton, Rosen & Katz conducted Salomon's recent internal investigation of its Treasury auction scandal. The report re-

od of paying for your own investigation may be flawed.

Take one of Pitt's clients, Back Bay Restaurants, a publicly traded, Boston-based chain of family-style restaurants. Last October Back Bay's board brought in Fried, Frank to investigate concerns raised by the company's chief financial officer, Nabil El-Hage, who has since resigned.

Newspaper reports said El-Hage made serious charges: that Back Bay schemed to shore up ailing Westwood Group, a racetrack operator largely owned by Back Bay Chief Executive Charles Sarkis. El-Hage said this was done by having some of Westwood's construction expenses billed to Back Bay—through contracting firms (one owned by Sarkis' cousin) that did work for both companies.

Pitt was hired by a so-called independent committee of outside directors of Back Bay. The committee's chairman and sole active member during most of the investigation was Robert Parker, dean of the business school at Georgetown University, where Back Bay's Sarkis is a regent and a generous donor. According to a

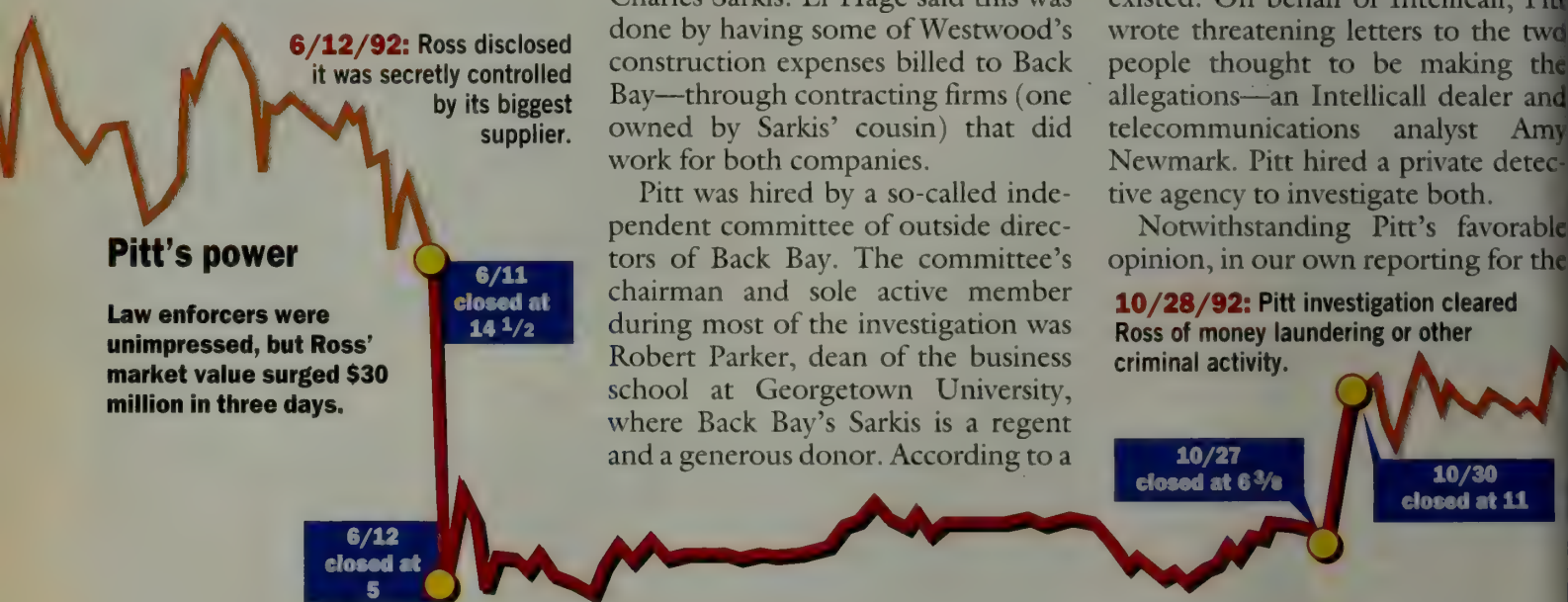
tion, and I value it so much that I don't want to do anything that would compromise the integrity of my approach."

But the case of Intellicall (*FORBES*, Nov. 25, 1991) certainly did nothing to enhance Pitt's mystique. The maker of pay telephones hired him in March 1991 to look into allegations that management was committing accounting fraud, shipping out products that no customer had agreed to pay for yet—and booking the shipments as sales.

Pitt's conclusion: No such problem existed. On behalf of Intellicall, Pitt wrote threatening letters to the two people thought to be making the allegations—an Intellicall dealer and telecommunications analyst Amy Newmark. Pitt hired a private detective agency to investigate both.

Notwithstanding Pitt's favorable opinion, in our own reporting for the

10/28/92: Pitt investigation cleared Ross of money laundering or other criminal activity.



sulted in the suspension of two top officials.

"This [practice] has become a critical and integral part of corporate governance," says Harvey Pitt, former SEC general counsel and a partner at Fried, Frank, Harris, Shriver & Jacobson.

Pitt, at 47, is probably at the top of everyone's list of such corporate governors. One of the nation's most prominent securities lawyers, he was the chief defense counsel for Ivan Boesky and got his client a light sentence for flagrantly criminal conduct.

The brilliant Pitt is nearly a match for a Lexis terminal when it comes to spouting out past cases and precedents. He is, by any standard, one of the nation's outstanding attorneys. No shrinking violet, Pitt likes to describe himself as a Boy Scout. Certainly he has never been accused of any wrongdoing.

But several recent investigatory cases handled by Pitt suggest that this meth-

FORBES source, Sarkis has pledged half a million dollars over the next five years to Georgetown. (Neither Sarkis nor Georgetown will confirm or deny the amount of the pledge.)

After a few weeks of investigation, much done by young Fried, Frank associates, Back Bay issued a press release announcing that the special committee "uncovered no facts that would materially impact the financial statements of the company."

How arms-length was the investigation? Instead of bringing in an outside auditor, Pitt relied on Coopers & Lybrand, which had signed off on Westwood's previous financial statements and was also the outside auditor for Back Bay. This special investigation was not Fried, Frank's first assignment for Back Bay. In March of last year the firm did legal work for Back Bay's initial public offering.

Pitt tells *FORBES*: "I've worked very, very hard to develop a reputa-

Intellicall story *FORBES* uncovered facts disturbingly consistent with the allegations. And less than a year after Pitt cleared the company's name, four senior officials were dismissed for a different infraction. The company was found to have misrepresented its debt on financial statements, and to have hidden from shareholders and the banks the fact that it was in violation of its loan covenants. Intellicall's stock dropped 30%. Was Pitt embarrassed that the same company, he cleared of cooking the books in one way later misrepresented its financial statements in another way?

Reminding *FORBES* that he cannot discuss Intellicall specifically, Pitt growls: "I have never been embarrassed by anything I have done in any special investigation."

The Intellicall audit cost the company about \$80,000. The firm then hired Fried, Frank again for another \$1.1 million worth of corporate work.

Software Artist.

Mention the word silverware and 87% of Americans say Oneida.

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After years of running on CA mainframe systems software, Oneida is right-sizing to a mid-range environment.

"When we decided to move to the AS/400 environment, we



CA's Computing
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For The 90s.

RICK MUNGER,
DIRECTOR OF INFORMATION
RESOURCES, USES CA'S
INTEGRATED MANUFACTURING
AND WAREHOUSE SOFTWARE
FOR THE AS/400
TO KEEP ONEIDA #1.

were very pleased to see that CA is the leader in both manufacturing and warehouse applications.

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"With technology changing as fast as it does, we need a software partner we can trust.

And when you mention the word software, what name comes to mind?

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Why is this company so secretive?

The official address for S&J Perfume, U.K. supplier of Ross' fragrances, is an empty storefront (left). Its outside auditors work upstairs. A former company address (above) is a private home. S&J does have a suite in an office building near London (right). FORBES called there and asked where S&J's factory is. A man said nervously, "We don't want to reveal that sort of information, it's all part of a plan."

over the next nine months.

Pitt may have taken on his most difficult assignment yet when he launched an investigation into Duncan, S.C.-based \$47 million (fiscal 1992 sales) Ross Cosmetics Distribution Centers, which reported a 66% increase in profits in the fiscal year ended last Aug. 31. Ross' main business: selling cheap knockoffs of designer perfumes. "Our alternative to Giorgio," reads the label on Ross' fragrance called Gorgeous, which sells for about \$5, compared with \$50 for Giorgio.

Ross Cosmetics' Nasdaq-traded shares have plunged over 50% from a high of 28 last March. In response to swirling rumors, the company disclosed last June that it was secretly controlled by the owners of English perfume manufacturer s&j Perfume Co. Ltd., Ross's leading supplier.

What's wrong with that? The two Indian families (both have the surname Sheth) who own s&j had accumulated 63% of Ross' stock through an elaborate labyrinth of Panamanian corporations, some of which owned 4.3% of the company, just below federal disclosure requirements.

The disclosure of the Sheths' control set traders, short-sellers and government enforcers to speculating about possible money laundering, drug smuggling and stock price manipulation. Ross appointed an independent committee of the board. Pitt got the call.

After a four-month, \$1.6 million

probe, the committee announced in October that it had found "no basis" for these rumors. The Sheths were merely unwitting victims of unscrupulous financial advisers—who failed to tell them about U.S. disclosure requirements.

Despite this, Ross' name has not been cleared. The SEC is continuing its investigation of the company. The U.S. Customs Service is preparing a criminal investigation. "These people have absolutely illogical ways of moving product around the world, and there has to be a reason for it," says a fraud expert at U.S. Customs.

FORBES has learned that 18 months ago British law enforcement officials raided two of the Sheth perfume factories. They had "very, very good information that massive quantities" of counterfeit perfume were being produced, says an investigator involved in the raid. The Sheths were supposedly putting their own fragrances in Chanel packages and selling them for 10 or 20 times the price of their own perfumes.

The raid turned up no evidence of counterfeiting. Yet British officials tell FORBES they believe their information was correct. They believe the counterfeit operation has been moved, and that the counterfeit boxes are still being produced at a printing factory in Nottingham. That factory is owned by one of the Sheths' Panamanian corporations, of which Eugene Derry—the main financial adviser who was criticized by Pitt and the special

committee for misleading the Sheths—is an officer.

Derry, an upper-class Englishman who lives in Switzerland, controls 102 Panamanian corporations himself, and is said to have been involved in deals with Peter Francis Crosby, a financial scamster now in jail in Geneva. A follow-up raid in Nottingham is being planned.

Did Pitt's investigation uncover evidence of these additional wrongs? We put the question to Pitt, who responded: "There are things that are put in [special committee] reports and things that aren't, and those are always questions of judgment, and I can't respond specifically."

Why would a lawyer of Harvey Pitt's standing and seven-figure annual income get involved with a business as questionable as Ross Cosmetics? He scarcely needs the money, but Pitt is something of a curmudgeon and no great admirer of prosecutors. He answers our question in ideological terms: "Let me tell you: I do it if I can be of help to a public company. I really believe in the process by which public companies govern themselves effectively."

FORBES would agree with that. But in the cases of Ross Cosmetics, Intellcall and Back Bay, it is by no means certain that—Pitt's investigations notwithstanding—these companies have been governing themselves effectively. Rightly or wrongly, such self-investigations are coming under a cloud.



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Are your legal bills too high?
Here's the newest way to control
lawyer fees.

Piecework

By David Frum

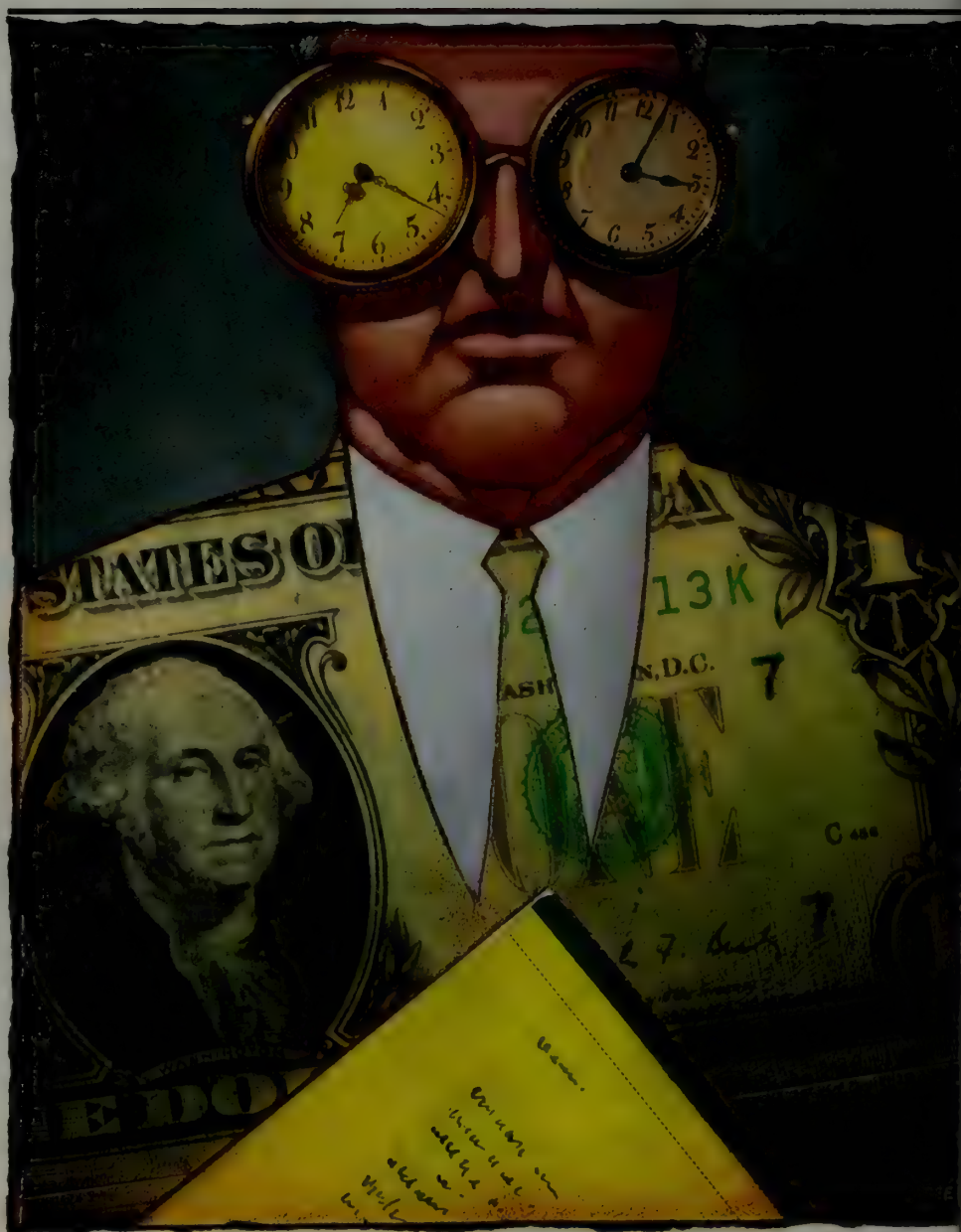
REVIEWING A legal bill can be a frustrating experience. How can a client know whether the work in fact took the time the law firm says it did, or was even necessary? In a paper presented at last summer's American Bar Association meeting, Zoë Baird, then Aetna's general counsel and President Clinton's failed choice for Attorney General, noted that nearly two-thirds of all clients felt that their lawyers were too cavalier about costs.

It's easy to see how the clients got that idea. Since 1977, according to Robert Litan of the Brookings Institution and Steven Salop of Georgetown University, the revenues of the legal services industry have compounded at 12% a year, faster even than those of the health care industry. By 1989, the last year cited by Litan and Salop, the cost to society of the law industry's revenues had exceeded \$75 billion, or roughly one-fourth the total profits of all U.S. corporations that year.

Legal cost inflation began at about the same time that hourly billing became common. As recently as the 1960s it was unusual for lawyers to keep time records. Hourly fees began to spread in the late 1960s and early 1970s because they seemed to promise more precise and objective legal bills than annual retainers or fees for service.

Instead, billing by the hour institutionalized a conflict of interest between lawyer and client. The more time the lawyer put in, the richer he got, whether the time was well spent or not. As Zoë Baird put it to the American Bar Association: "Hourly billing pushes economic incentives in the wrong direction—weakening rather than strengthening the bonds between performance and pay."

In a major study published in the



Rutgers Law Review in 1991, Cumberland School of Law Professor William Ross reported that of 272 attorneys he surveyed, 60% admitted to knowledge of bill padding.

Is there a better way to pay lawyers? Bickel & Brewer, a 43-attorney Dallas-based law partnership that specializes in complex corporate litigation,

thinks there is. Seventy percent of Bickel & Brewer's new business is signed on an individually negotiated flat-fee basis. And if the firm gets a better result for its client than had been originally anticipated, it also gets an individually negotiated performance bonus.

Michael Grove, general counsel for Bellcore (the old Bell Labs), in Livingston, N.J., and a Bickel & Brewer client, is delighted to see the end of

hourly billing. A flat fee, Grove says "enables me to budget more exactly." And performance bonuses "create an incentive for the law firm to do well."

Hourly fees, on the other hand, create incentives for lawyers to skim on productivity-improving technology. "It is jarring," writes Cumber-

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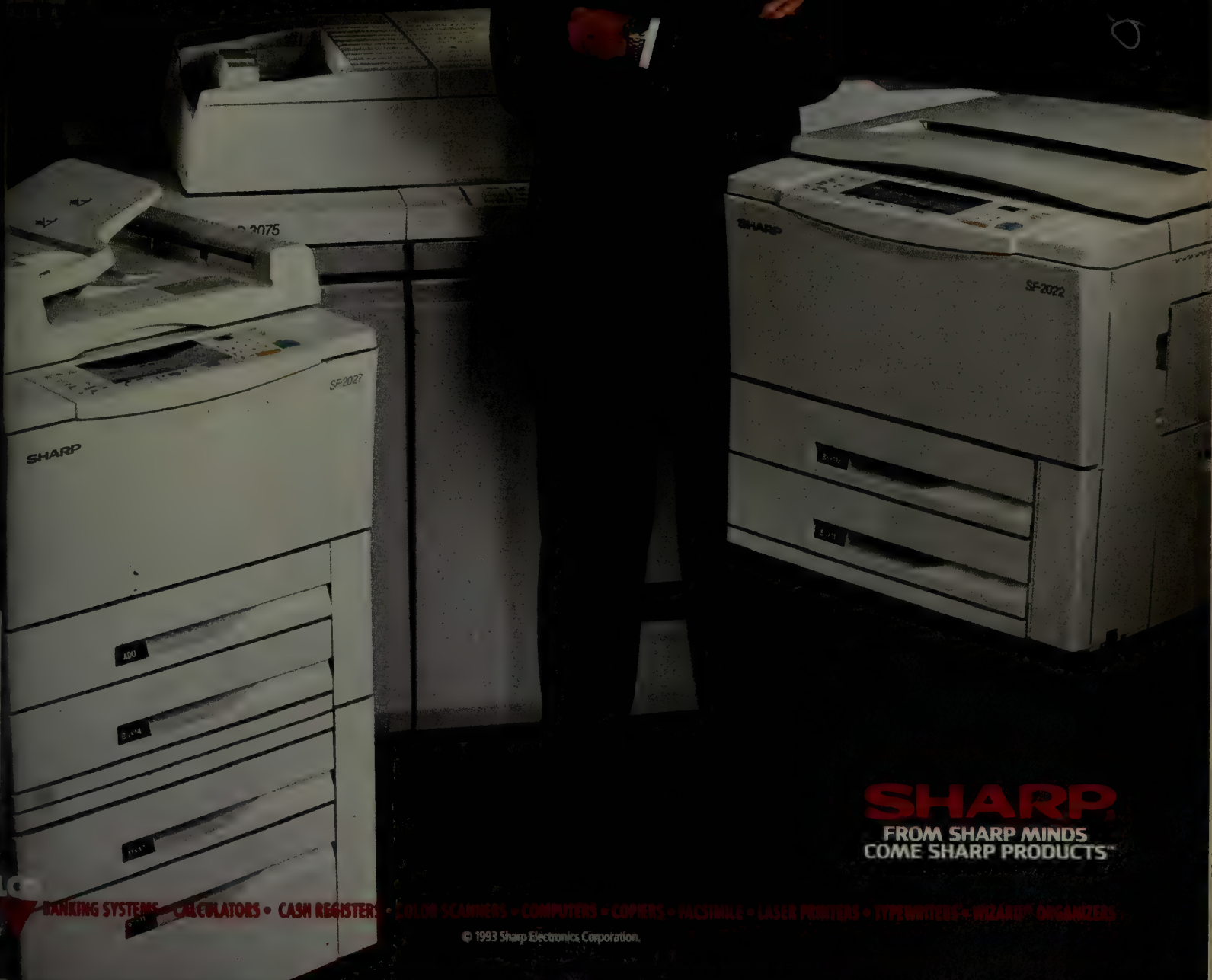
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land's Ross in his 1991 article, "to walk through the corridors of a typical large firm and see attorneys sitting in their offices scrawling out briefs, letters and discovery requests in long-hand on yellow legal pads like Victorian clerks."

Worse, Ross adds, hourly billing tempts lawyers to do unnecessary work, to duplicate work—and even to lie. Ross reported that 20% of the lawyers he surveyed even believed that it is ethical to bill a client for research or other work originally done for another client and recycled.

Abuses like these have brought a whole new industry into being: the legal bill checker. John Marquess, a lawyer himself, is chairman of Legalgard, a Philadelphia company that scrutinizes legal bills for clients like Liberty Mutual Insurance, Mattel and the state of New Jersey. Business, says Marquess, is hopping. Legalgard's revenues have tripled (to \$3.6 million last year) in each of the five years since its founding.

Marquess says reviewing about 2 million legal bills has convinced him that inefficiency and bill padding are rampant. "The problems we see in Tuscaloosa, Ala. are the same as the problems we see in Boston," he says.

Marquess doesn't agree, however, that Bickel & Brewer's flat fee offers a solution. Because legal costs—especially on the defense side—are inherently hard to predict, any flat fee, Marquess argues, "must allow for a giant margin." Nor does he favor the performance bonus concept: "As a lawyer, I'm being hired to do a great job. I don't deserve a bonus for doing what I was hired to do." Better, in Marquess' opinion, that clients should scrutinize their legal bills, or hire a firm like Legalgard to do it for them.

Still, if the new flat fee billing techniques are imperfect, they at least eliminate some of the inherent conflict of interest between attorney and client. Bickel & Brewer's managing partner, William Brewer, makes a good point when he says: "Any businessman will tell you that a system of compensation is irrational if it pays without regard to result. A lawyer's work ought to be valued according to its contribution to the bottom line."

IRS huffing over independent contractors has companies and workers running. There are defenses.

How the bar girls beat the IRS

By Richard Phalon

WHAT IS THE common thread among these taxpayers: exotic dancers in Dallas, carpet installers in New Jersey and a professor of finance at the University of Michigan's business school? They were all accused by federal or state tax auditors of masquerading as self-employed independent contractors when they should have been classified as employees.

These cases are part of a highly publicized dragnet that involves, so the Internal Revenue Service alleges, \$20 billion a year in unpaid and underreported taxes. When workers claim to be self-employed, they're on their own for remitting income and Social Security taxes. Since a lot of them underreport their income or are broke when taxes are due, contends the Service, the government is out a lot of revenue.

The taxman's solution to this problem is to go after companies that use these workers. If the tax authorities can prove that a worker is an employee, not a self-employed independent, they can dun the employer for all the taxes that should have been withheld, plus penalties (FORBES, Mar. 2, 1992).

So when is a worker an independent? The definitions in the tax law are so ambiguous and the potential penalties for misclassifying a worker so high that many big companies are running for cover. They are forcing formerly independent workers onto the payrolls of outside firms, such as Career Blazers, a temporary help company, or Payroll Options Unlim-

ited, a division of Uniforce Services. Thus drug manufacturer Pfizer and magazine publisher Condé Nast recently farmed out a number of researchers, copy editors and the like to third-party payrolls.

There's a net loss to the players when a worker goes on a payroll. A worker on a payroll is much more limited in tax writeoffs that can be taken (for retirement savings or job-related expenses) than an independent. Two further costs to the ultimate employer: the inevitable passthrough of Social Security and unemployment taxes and the third-party payroll firm's margin of profit.

So don't cave in too readily to the tax collector's anti-contractor campaign, says James Urquhart III, an Irvine, Calif. attorney who specializes in tax and other issues involving independent contractors. The running box score in Urquhart's newsletter, *The Independent Contractor Report*, suggests that state and federal auditors lose as many cases as they win. Among the losses: case involving the dancers, the carpet installers and the business school professor. All were held to be independent contractors.

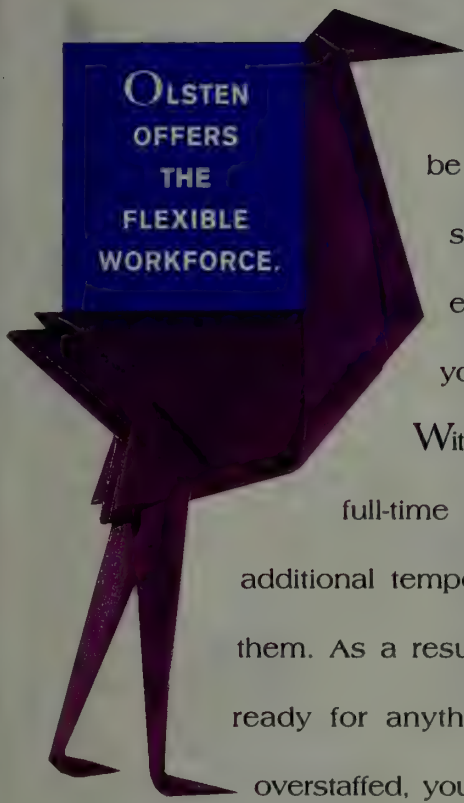
Some Urquhart tips that will help buttress independents:

- Have multiple clients. Advertise in the Yellow Pages. In the Carpet Remnant Warehouse case, decided by the New Jersey Supreme Court in June 1991, the installers seemed to carry all the earmarks of independents. They could choose among jobs the compa-



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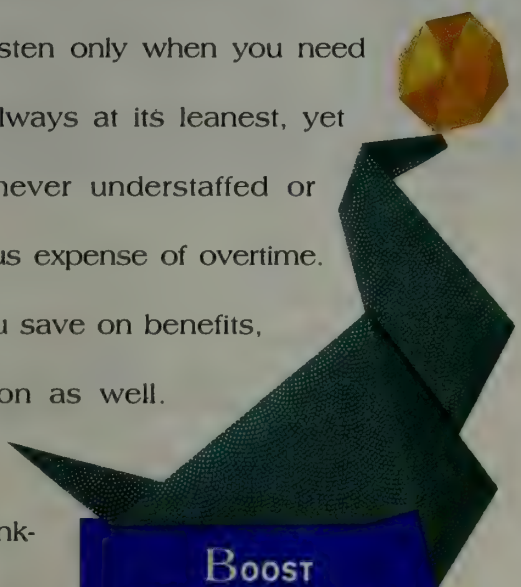
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ny posted on a bulletin board, worked for other companies, controlled their hours, got paid by the yard rather than by the hour, negotiated directly with customers on the cost of extras and were at risk. They stood to lose if they had to repair defective work.

Incorporating your business may help. The New Jersey Department of Labor, which unsuccessfully chased the carpenters through the courts, never even went after the one installer doing business as a corporation.

■ If your accountant for some reason thinks incorporating is not a good idea, reinforce your sphere of independence by filing with the IRS for an employer identification number. You'll need a form SS-4. Also consider working under a business name.

■ Work under a written agreement that, among other things, specifies it can be terminated without cause by either party on 30 days' notice. The point here is that employees often can't be fired at will. Independent contractors can.

■ Bill by the assignment on an invoice you've had printed on your own Business cards identifying you as independent rather than a company representative are another useful piece of stationery to have on hand.

■ Accept no medical, pension or other fringe benefits. Pay your own Social Security, Medicare and income tax installments directly. University of Michigan Professor James Reece beat the feds partly because it was clear he received no fringes for outside seminars designed and conducted for a center founded by the university.

■ Realize that many of the "common law" tests the federal and state auditors use boil down to questions of control. Freedom to come and go, to work at your own speed, with your own methods and no supervision are all very much to the point. It also helps to own or rent office space away from home.

Look at the Dallas exotic dancer. They worked on the saloon premises all right, but were definitely not employees of the joint. In fact, they paid \$20 to \$40 a night for the right to work there. Their compensation came not from the barkeep but in the form of tips from the customers. It's all, another small triumph of enterprise over the revenueurs.

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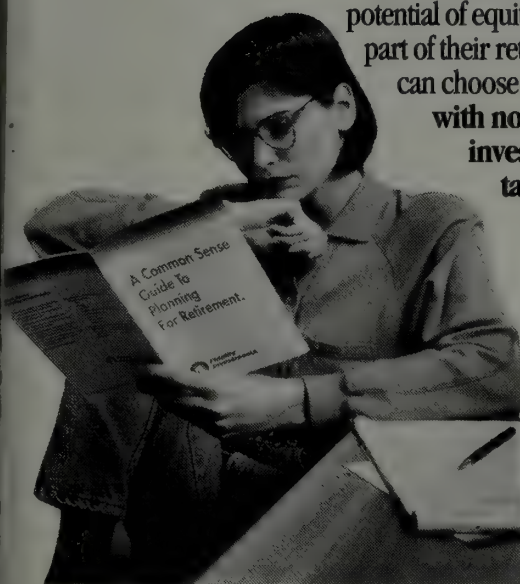
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Out of a young Australian's thwarted ambitions has risen a global company that is already fourth in the beer business. Meet Foster's Brewing Group.

Soap opera Down Under

By Subrata N. Chakravarty

THE PLOT doesn't resemble Oliver Stone's saga of Gordon Gekko. It's much closer to an old Abbott and Costello slapstick job. But it does seem to have a happy ending.

Act One: An Australian Harold Geneen, John Elliott, 51, his head full of

ideas picked up in business school, takes an obscure food company, makes hundreds of acquisitions and builds Elders IXL Ltd. (now Foster's Brewing Group Ltd.) into Australia's largest conglomerate, with revenues of around \$14 billion in fiscal 1989,

which ends in June. Unlike Harold Geneen, whose career seemingly inspired his, Elliott builds his company on a mountain of debt—some \$5.5 billion worth, almost double the shareholders' equity of roughly \$3 billion.

Act Two: An irate board ousts Elliott as chief executive and appoints a subordinate, Peter Bartels. The new man, the tough, no-nonsense head of the conglomerate's beer operations, holds a fire sale of nonbrewing assets and suspends the dividend in order to reduce debt.

Act Three: Elliott, who remains the largest stockholder through a heavily leveraged personal holding company, mounts a proxy fight to win back control or at least force Bartels to resume the dividend. The Foster's stock is the company's principal asset, and the dividend Elliott's only way of servicing the debt. In a compromise

the Foster's board of directors agrees to the creation of a stockholders' watchdog committee operating in parallel with the board but excluding Chief Executive Bartels.

Act Four: An outraged Bartels quits. His successor, an able career brewer, insists that he be a member of the stockholder committee before he'll take the job. The stockholder committee never meets again.

Act Five: In June 1992 Broken Hill Proprietary Co., Ltd., Australia's giant steel, mining and energy company, comes onstage. Broken Hill owns some \$750 million in preferred stock in Elliott's holding company. To try salvaging its investment, Broken Hill buys the holding company's 37% stake in Foster's by paying off the banks that held it as collateral for the company's loans.

Act Six: Philip Morris Cos.' Miller Brewing unit buys 20% of Foster's Canadian joint venture with Molson Cos. Ltd. Japan's Asahi Breweries, Ltd. is already a minority shareholder



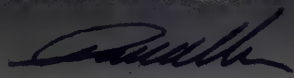
Former Foster's chief executives John Elliott (left) and Peter Bartels

One created Australia's largest conglomerate. The other had to slim it down.

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Edward T. Kunkel, Foster's Brewing Group's chief executive, at a brewery

Breweries exist to create cash flow, not just to make beer.

er in Foster's.

Who's in charge around here? Nobody seemed to know. Not only did the ship seem to lack a captain, it appeared to have lost its entire steering apparatus. Nevertheless, the vessel itself is otherwise shipshape. Foster's, whose brews are available in the U.S. market, is the fourth-largest brewer in the world and has the world's only multinational brewing operation.

This was a farce that might have ended as tragedy but finally has a happy ending—and a strong captain at the helm.

He's Edward T. (Ted) Kunkel, the head of Molson Breweries, Foster's partnership with the Molson Cos. With Broken Hill firmly behind him, Kunkel, a 49-year-old New Zealander, wrote down the approximately \$2.1 billion in nonbrewing assets that were still on the books to some \$1.3 billion. Other overvalued properties

were also written down. In all, Kunkel took nearly \$1 billion in charges in fiscal 1992.

"We want this company to be judged on its brewing units going forward," Kunkel says. "You have to appropriately provision the nonbrewing assets so that you don't believe they're going to impact the P&L in the future."

To shore up Foster's finances, Kunkel raised some \$700 million in new equity this fall with a special rights issue. Stockholders would get the right to buy two shares for every five owned, at about 75 cents per share. By exercising its rights, Broken Hill raised its stake in Foster's further, to almost \$2 billion, for shares with a current market value of roughly \$1.2 billion. Asahi exercised only half its rights and saw its ownership drop from 20% to 16% of the company. Philip Morris has no direct stake in the Australian parent.

The comic-opera turmoil largely behind him and the slate wiped clean of past mistakes, Ted Kunkel is set to make Foster's a bigger player on the world stage. A brewer to the core, with 25 years in the business, he helped turn Foster's Brewing Group from an obscure regional brewer in the Australian state of Victoria into a multinational brewer, which has the largest market share in Australia and Canada and the second largest in the U.K. It is also the second-largest importer into the U.S., where it has big plans for its partnership with Molson Cos. and Miller Brewing.

As recently as 1980 the Foster's brand was just another name among dozens in a nation known for its parochial, regional beer-drinking tastes. How to turn Foster's into a national brand? Bruce Siney, now Foster's group marketing director, came up with an ingenious scheme. He would establish Foster's overseas and bring it back to the rest of Australia as an

international brand.

The boomerang ploy worked beautifully. "Foster's was taken offshore and brought back in a cachet sense," recalls Kunkel. "Australians still had parochial brand preferences, but the moment an Australian became an international traveler, he adopted the Australian brand which he found abroad." By the mid-1980s Foster's had become the dominant brand nationwide.

The marketing strategy also made an international star out of Paul Hogan, with his "It's Australian for beer mate" commercials. And there was an unexpected dividend: Foreign sales begun as a marketing ploy for the home market, proved to be a highly profitable vehicle for further growth.

In 1986, with some of the money borrowed by the ambitious John Elliott, Foster's bought Britain's Courage Breweries. In 1987 Foster's entered the Canadian market by acquiring

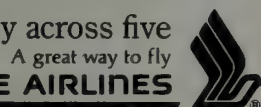


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ing Carling O'Keefe Breweries for around \$300 million. Ted Kunkel was sent out to run Carling.

Carling was Canada's third-largest brewer, with 20% of the market. Kunkel approached larger rivals Labatt and Molson about acquiring one of them but was rebuffed; however, Molson Cos., a diversified company, agreed to a joint venture, merging its brewing operations with Foster's Carling O'Keefe. Today the joint venture, Molson Breweries, created in 1989, has 52% of the Canadian market.

"The synergies between the two companies were almost abnormal, as if somebody had planned it," Kunkel marvels. For example, in Montreal Molson had a very modern and efficient brewery, while Carling's brewery was old. In Toronto Carling had the best facilities, while Molson's brewery on the waterfront had great value as real estate. All the synergies added over \$150 million to earnings before taxes and interest.

Between fiscal 1990 and 1992, according to ANZ McCaughan brewing analyst Terry Povey, Kunkel increased Molson's margins from 8.5% to 13.9% in the midst of a severe recession.

In Britain, too, Foster's British company, Courage, was plowing ahead. In 1991 Courage acquired the brewing operations of Grand Metropolitan Plc., making it a powerful second in the U.K. It also set up a separate joint venture, Intreprenuer, to manage 8,450 of the two companies' own pubs.

Through the years, Foster's has shown a remarkable ability to maintain an amicable relationship with other brewers. In the U.K., for example, Foster's brews both Miller and Budweiser—at opposite ends of the same brewery. In Canada the Molson joint venture brews Miller and Coors. And, although Molson is a rival of Dutch brewer Heineken N.V. for the U.S. import market, Molson brews and distributes Heineken's Amstel brands in Canada.

So how does all this translate to the bottom line?

In fiscal 1992 Foster's brewing operations had operating income of more than \$400 million, up 13%, on a 9% increase in revenues, to about \$5.4 billion. Margins on the brewing operations are improving, although they are less than half those of Anheuser-Busch Cos. and only slightly better than Miller's. Clearly, the Foster's board hopes that Kunkel can work his Canadian magic with the rest of Foster's operations. Equally clearly, there is plenty for him to do.



Sampling of Foster's brews

A powerhouse competitor on three continents.

In the U.K. Foster's has lost a lot of business because brewers are no longer permitted to use as many of their own pubs as exclusive captive outlets for their own beers. In Australia Foster's is in a price war for market share that has eroded its margins. Distracted by the corporate infighting, Foster's lost some market share and is trying to regain it. But price-cutting goes very much against Kunkel's grain. "I'm not a discounter," he says. "I'm a brand builder."

So Kunkel is likely to focus on cutting costs and improving marketing as means of restoring profit margins, rather than using price as a weapon. He says: "The thing that you can do in poor times is effect changes in structural costs that are not as easy to

do in good times."

Meanwhile, in Canada there is the recent alliance with Philip Morris. Last month Miller announced it had agreed to purchase 20% of Molson Breweries for \$273 million plus the net book value of Molson's U.S. assets. It will take over the distribution of the joint venture's products in the U.S., giving it far greater reach in domestic markets.

By giving it additional brands, the move will also help Miller, whose market share has stagnated during the past decade; industry leader Anheuser-Busch has steadily pulled away and currently has double Miller's share.

Miller's move raised some intriguing possibilities. Within the last two months, the company has bought stakes in the largest brewers in Canada and Mexico. Miller President John MacDonough has said the company would move aggressively to strengthen its international business. Its parent, Philip Morris, is brimming with cash; it has estimated it will generate \$21 billion in cash in excess of internal needs between 1992 and the end of 1996, and has lots more in borrowing power. It is obviously ripe to make an acquisition.

Could Foster's be it? With a current market capitalization of \$3 billion (traded in the U.S. as ADRs), Foster's would be a fairly cheap acquisition. With that single move, Miller Brewing would make up a lot of ground on Anheuser-Busch, besides putting itself year ahead of its rival in global penetration.

For the first half of fiscal 1992 (through December), Foster's is expected to announce slightly lower sales and brewing income, reflecting the worldwide recession. But the down blip does little to lessen the company's powerful position in the international beer market. The people at Australia's Broken Hill made a smart move when they seemingly threw good money after bad to strengthen their stake in this one troubled Australian company.

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Connecticut: The State That Thinks Like A Business.

Running a business today is tough work. The last things a business owner needs are bureaucratic walls to get around, a tangle of regulations that sap dollars from the company's bottom line.

Connecticut knows the kind of obstacles businesses face and has taken dramatic steps to knock down those walls. First, Connecticut bit the bullet and balanced its state budget. No longer will the state use regulations as a club to drum up income. Instead, the state legislature created a fair, equitable tax system that doesn't punish business.

To dispense with the credit barrier, the state established a billion-dollar loan and loan-guarantee program—\$200 million in state funds which leverages \$800 in bank money—to bring new businesses into the state and expand companies already there.

Then the state took on its own bureaucracy, streamlining the process by which businesses get up and running. Businesses now deal with different state agencies through one contact person. They get fast-track movement through the permitting process. And they can tap into a wealth of programs, from job training to export assistance.

With those obstacles out of the way, businesses can now enjoy the assets that have traditionally made Connecticut a superior place to do business: its highly trained work force, its ready access to the growing international markets, and its incomparable quality of life.

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High-tech companies large and small have flocked to Connecticut to set up their operations. Here's why:

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- it ranks eleventh for number of scientists and engineers in the work force;
- it ranks second in the number of people holding patents, more than double the national average.

Connecticut workers are not only talented and well-trained, but highly productive. And the state has invested in this strength through innovative partnerships with the business and academic communities. Per capita, Connecticut ranks sixth in the nation in R&D expenditures at universities.

Connecticut's Global Vision

Connecticut has positioned itself to compete vigorously in the global markets. The state leads the nation in the export of manufactured goods per capita. Overall, exports are growing at a rate of 10% per year.

Connecticut paved the way ten years ago for this explosion of growth by a bold investment in its infrastructure. Today, Connecticut's expressways and highways, its ports and airports, its rail lines and telecommunications systems are among the most modern and well maintained in the U.S. No wonder that more than 100 U.S. and international companies have set up regional distribution centers in Connecticut.

Companies desiring to enter international markets will have a leg up in Connecticut. The state's aggressive new international program provides counseling on everything from markets to documentation to shipping.



Nick Perna, chief economist
Shawmut National Corporation

"Connecticut is poised for the future. They've reduced the business tax burden, balanced their budget, maintained their credit rating and introduced one of the most innovative programs in the country to ease the credit crunch."

Good Things Come in Small Packages

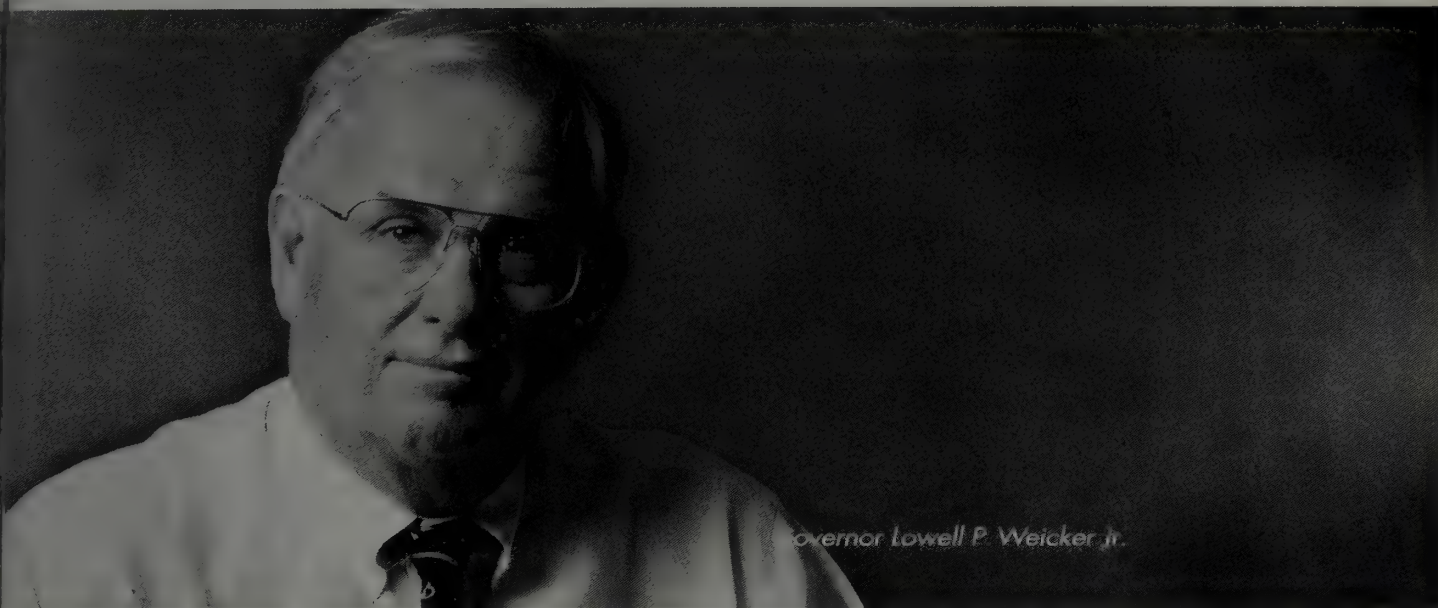
Every state talks about its quality of life. But what does that mean? In Connecticut, quality of life means an opportunity to take a class at a world-class university like Yale or Trinity or University of Connecticut. It means enjoying a dramatic production at one

of the nation's top regional theaters. It means superior public and private schools for children and high quality yet affordable, health care.

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Whatever one's definition, quality of life combines with Connecticut's other assets to produce the perfect climate for business. Learn more about the State That Thinks Like a Business. Call 1-800-392-2122.

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Governor Lowell P. Weicker Jr.

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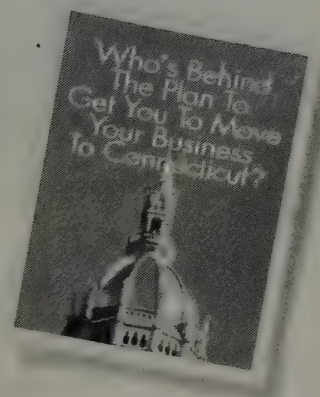
Next, our legislature passed one of the most aggressive business incentive packages in the country, including a billion-dollar loan and loan-guarantee program.

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CONNECTICUT
The State That Thinks Like A Business.

Billions of dollars in stock market value ride on Wolfgang Schmitt's ability to keep Rubbermaid growing the way Stanley Gault did.

Okay, call me a predator

By Seth Lubove



Wolfgang Schmitt, Rubbermaid's new chief executive

"Where is it written that garbage cans can't be fashionable?"

AS A HIGH SCHOOL track star at Smithville (Ohio) High School, Wolfgang Schmitt set a school record for the 180-yard low hurdles that still stands 31 years later. Fit and intense at 48, Schmitt is trying to get Rubbermaid Inc. over some tough hurdles.

Founded in the 1920s as a toy-balloon maker, Wooster, Ohio-based

Rubbermaid is one of the business world's recent success stories. Stanley Gault, son of Rubbermaid's first general manager, left a fast-track job at General Electric to take over as Rubbermaid chief executive in 1980, and turned a faltering little company into a \$1.8 billion (1992 sales) business.

Rubbermaid's return on equity has

averaged 20% in recent years, and without benefit of capital leverage in the form of debt. It enjoys a market capitalization of \$5 billion—nearly three times revenues.

Gault made Rubbermaid such a household name that four years ago consumers thought it was the number two maker of dishwashing gloves even before it made the gloves.

Gault went on to head Goodyear Tire & Rubber Co., handing the reins in 1991 to Walter Williams, 58. But Rubbermaid's earnings growth slowed in 1991 from the usual 15%. Williams resigned unexpectedly last November, trailed by nasty newspaper articles that accused him of steering contracts to cronies. The charges are hotly denied by Williams and the company. Schmitt says that Williams quit for "personal reasons" and to spend time with a brood of ten grandchildren.

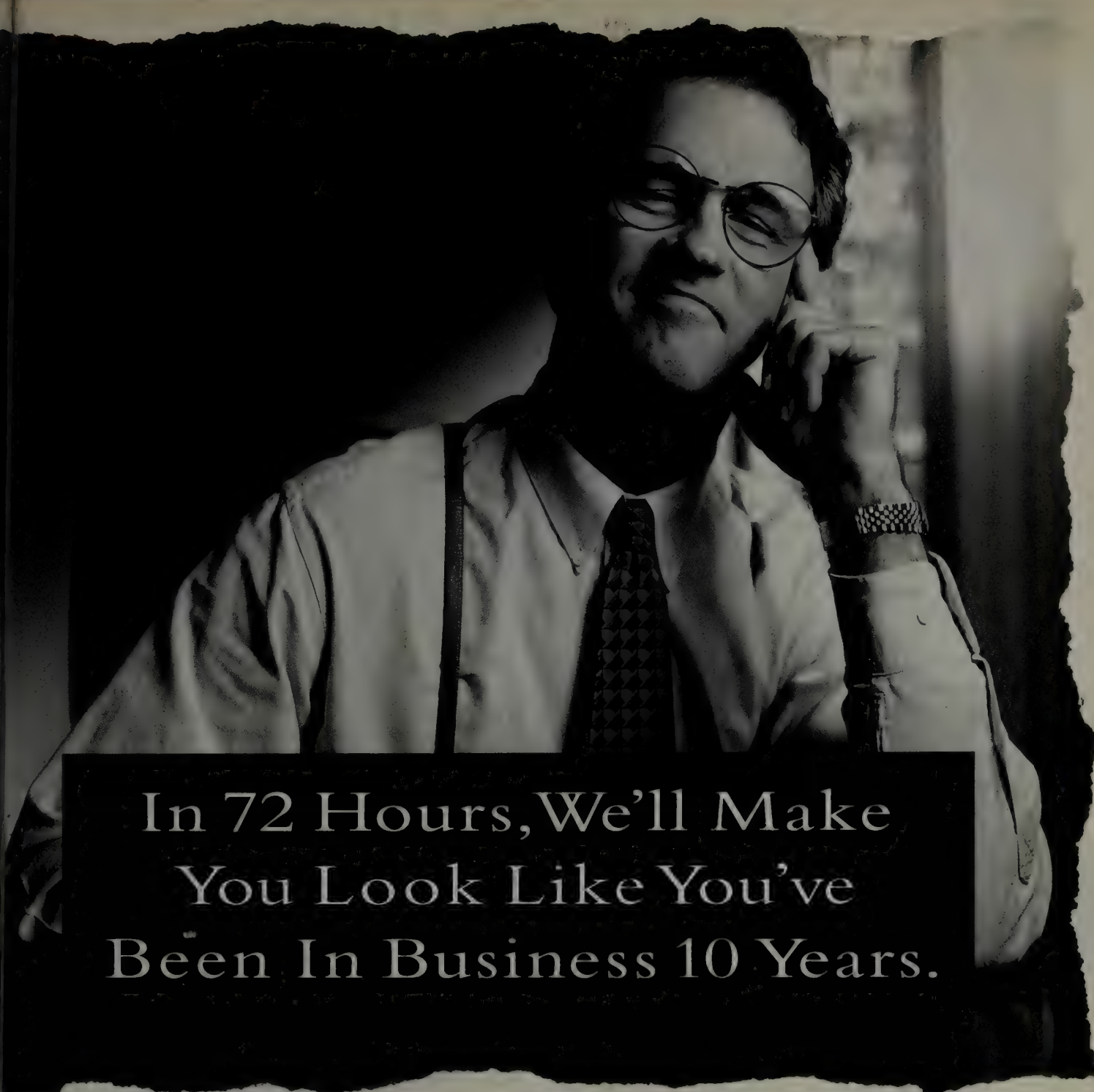
Nevertheless, the rumors and the slowdown in earnings growth tarnished Rubbermaid's image. The stock, which sold as high as 37½ in January 1992, dipped as low as 27 before returning to a recent 31½.

To restore confidence, Gault stepped back in as cochairman, while keeping his full-time job as chief executive of Goodyear. Schmitt, who has been chief operating officer under Williams, became cochairman and chief executive officer. Gault is working only part time, so the task of steering the company falls to Schmitt.

Schmitt will have to do more than just restore Rubbermaid's image. With the recession pinching consumers' incomes, Rubbermaid is losing more sales to cheaper, nonbranded goods made overseas.

At the same time, having saturated the kitchen with such ubiquitous plastic creations as Servin' Saver food containers and Chef Spaghetti Scoops, Rubbermaid must find new markets. It is now going after the rest of the house, the backyard and, lately, the office. Rubbermaid has also expanded overseas, where it hopes to garner 25% of its sales by 2000, up from 15% now.

Schmitt faces an odd problem. Their quality is so high that Rubbermaid products infrequently need replacing. So the company must depend on new products—and new ma-



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Rubbermaid

kets—for growth. Schmitt says he wants to add a new market segment every 12 to 18 months.

It's a tough job but not undoable. "We're literally limited by our imagination," Schmitt boasts. Over 30% of Rubbermaid's sales come from products introduced within the past five years. To keep copycats at bay, Rubbermaid does no market testing; it would give others too much time to look at and knock off the new product. Instead it uses focus groups to identify needs. Then it develops a product and rolls it out.

One example: Rubbermaid designed a step stool with a toolbox fitted in the top step to reduce the need for storage space. Whereas the rule of thumb is that 90% of new consumer products fail, 90% of Rubbermaid's new products succeed. Last year Rubbermaid averaged a new product every day, a record Schmitt wants to surpass.

Rubbermaid counts heavily on a new generation of computer-aided design (CAD) workstations so advanced that they reduce new product design time from months to days.

Schmitt turns reticent when asked



Roger Mastromanni

LEFT: Stanley Gault, former Rubbermaid chairman **Back temporarily, and part time, to restore confidence and smooth the transition.**

RIGHT: Roughneck step-stool toolbox **An average of a new product a day, but no market testing.**

for more details; competitors have big ears and big eyes. But essentially the workstations enable Rubbermaid to go directly from rough sketches to finished product in weeks rather than months. "We're moving from sequential to simultaneous design,"

says Thomas Hanna, manager of product development for the Home Products Division. "We're ultimately able to reduce cycle time, decrease duplication of effort and reduce errors." Reducing the cycle time is critically important: Rubbermaid has the

There's a meeting in New York at 10 and San Diego at 10:30, plus they need you in Atlanta at 11, L.A. at 11:15 so maybe you'd



writing off a big investment in old CAD systems.

“For us to be successful, we have to reinvent ourselves continuously,” Schmitt says. “If we don’t, our profit-generating capacity will diminish.” The reinventing can be expensive: Rubbermaid once spent \$1 million just to retool an ice cube tray injection-molding machine so that it could accommodate a new kind of plastic that makes it easier to remove the ice cubes.

Filling Stanley Gault’s shoes isn’t easy, as Walter Williams learned. But Schmitt is up to the task. Born in 1944 in war-torn Germany, he came with his parents after the war to bucolic Smithville, only 5 miles from Rubbermaid’s offices. Still fluent in German, Schmitt joined Rubbermaid in 1966 as a management trainee, straight out of Westerville, Ohio’s Otterbein College, a Methodist institution. He moved through a series of management jobs, including director of research and development for Home Products, and to executive vice president in 1987.

Despite his small-town background—or maybe because of it—

he’s imaginative as can be when it comes to marketing. For instance, he asked his designers a few years ago why garbage cans must be made only in chocolate and olive green. Why not blue? “I said, where is it written that garbage cans can’t be fashionable?” Schmitt recalls. Rubbermaid now sells more blue garbage cans than any other color. A collector of Southwest Indian artifacts, he steered Rubbermaid into making things in trendy Southwest colors such as terra-cotta and turquoise blue.

It takes a tough man as well as an imaginative one to run a tough business like this, and Schmitt fits the bill. An aggressive tennis player with a killer serve, he just smiles when he’s reminded that competitors accuse him of predatory behavior—defined in this case as consistently beating them to market. “If our competitors think that, I take it as flattering,” he says. “We love the free enterprise system. We live in a system where the making of a profit is ethically legitimized because the consumer is rewarded with better value. Yes, I love it if they call me a predator for those reasons.”

market to itself for longer before cheaper knockoffs appear, and it can respond to new market opportunities faster.

Schmitt plans to convert the whole company to the new CADs this year from an older system. This means

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A new accounting rule makes financial statements difficult to compare—and gives managements a new way to massage earnings.

Read those footnotes!

By Roula Khalaf

HIDDEN RESERVES, which allow managements to smooth out reported earnings, are making a quiet comeback. Their vehicle: the Financial Accounting Standards Board's new Statement 109, which tells companies how to account for tax credits. Some companies have already adopted the new rule, but most will adopt it by the first quarter of 1993.

Suppose that as the result of a big restructuring, a company generates a \$1 billion loss. For tax purposes, losses can be carried forward for 15 years. Assuming the company makes money after the restructuring and pays taxes at the full corporate income tax rate of 34%, that \$1 billion loss could save the company \$340 million.

The accounting question is: When and how should the company account for that potential tax savings?

According to the FASB's Statement 109, managements must peer into the future. If management believes it is "more likely than not" that the company will generate enough earnings in the future to warrant the use of the credits, then the company must book the value of the tax credit as income immediately, and label the earnings infusion as a one-time accounting change.

What if management isn't so sure about future earnings? Then Statement 109 tells the company to set the tax credit aside in a reserve. This reserve can be dipped into in future years at management's discretion—and thus could be used to offset earnings disappointments.

Companies looking to set up tax credit reserves won't encounter much resistance from their auditors. That's because Statement 109 gives managements a great deal of latitude as to the outlook for future earnings. "The 'more likely than not' provision is

perhaps the most judgmental clause in accounting," says Ernst & Young partner Norman Strauss.

Statement 109 certainly won't make it easy to compare companies' financial statements. Consider how computer systems maker Unisys (1992 revenues, \$8.4 billion) and in-

and could be taken into income slowly, over the next several years.

Now look at Ceridian, which is the successor company to the moneylosing computer systems maker Control Data. Last year Ceridian spun off its unprofitable operations, leaving it with a profitable core business in information services—and tax credits worth over \$450 million, about \$10.60 a share. Ceridian will book its \$450 million tax credit as a reserve and take a fresh look at the reserve after several profitable years.

Result: Unisys' reported net income will get a big, nonrecurring infusion this year. Ceridian's aftertax earnings will get nothing this year but could instead enjoy a steady stream of infusions in the future—assuming, of course, Ceridian makes money.

Not all companies will rush to set up reserves. Those trying to build up their capital accounts—banks, for example—will attempt to recognize as much of a gain as possible early; most of the gain will flow into the balance sheet as retained earnings. Others, faced with huge charges against earnings to fund reserves for retiree health benefits, will also want to book big gains immediately to mitigate the negative impact of these charges on equity. But other companies will set up reserves and use the reserves to offset unwelcome charges—or simply to make a particular quarter's earnings look better.

"With Statement 109, accounting rulemakers have created an incredible earnings management tool," charges Shearson Lehman Brothers tax and accounting expert Robert Willen. "This reserve is a mass with which you can do whatever you want."

Morale: Starting next month, read those income tax footnotes extremely carefully.

Companies to watch

Company	Net operating loss carryforward* (\$millions)
Armco	\$1,031
Black & Decker	596
Data General	490
Michigan National Corp	215
Occidental Petroleum	990
Penn Central	940
PHM Corp	638
Southland Corp	916
Temple-Inland	598
Wang Laboratories	1,800

*For financial reporting. Numbers as of most recent fiscal year available.

All these firms have large operating loss carryforwards that can reduce taxes in future earnings periods.

formation services provider Ceridian (estimated 1992 revenues, \$825 million) are following the new rule.

As a result of its 1991 restructuring, Unisys is sitting on tax-loss carryforwards that could save it up to \$500 million (about \$3 a share) in taxes. Unisys management believes the earnings outlook is reasonably bright; therefore Unisys will book most of its tax credit as income up front. The company recently said it will record a one-time gain of between \$325 million and \$425 million in its quarter ending Mar. 31. The remainder of the credit will most likely go into a reserve

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Super Food Services' Jack Twyman thought he was immune to the changes sweeping the food wholesaling industry. Then Albertson's pulled the plug.

Dinosaur?

By Toddi Gutner

PUT Basketball Hall of Famer Jack Twyman on the court today and he would be more than a little out of his depth. Basketball has changed since Twyman was a star forward for the old NBA Cincinnati Royals, from the mid-Fifties to the mid-Sixties. For example, players can no longer hang around the basket waiting for a pass to slam-dunk the ball.

Twyman's industry, food wholesaling, has changed, too. But Twyman isn't doing a very good job of adapting to the changes. As a result, the company he has run since 1972, Dayton, Ohio-based Super Food Services, Inc., is threatened with extinction.

Last year Twyman's largest cus-

tomers, Boise, Idaho-based Albertson's, Inc., ended an 18-year relationship with Super Foods. Losing Albertson's cost it 34% of its \$1.8 billion in total revenues in a single stroke. Losses for the fiscal year ending last August came in at \$5.5 million (51 cents a share), compared with 1991's net income of \$12.2 million.

Observes an executive at one of Super Foods' competitors: "Twyman thought Super Foods was insulated from the industry trend, and specifically Albertson's plan, toward self-distribution." But as managers of businesses in dozens of industries are finding, no one is safe from change.

Losing Albertson's came as a com-

plete surprise to Twyman. It shouldn't have. Food retailers operate on razor-thin margins. To fatten them up, Albertson's and other big grocers have for years been building their own supply networks and cutting out wholesalers like Super Foods.

Other big wholesalers have adapted to this trend. For example, the nation's largest food wholesaler, Minneapolis' \$15 billion (sales) Supervalu Inc., now does much of its business with small, independent grocers, and has developed several chains with a total of 260 retail grocery stores.

Why didn't Super Foods do likewise? "Albertson's didn't want us to," replies Twyman. "Our philosophy was to remain a food wholesaler and not go into competition with our customers, and I think they appreciated it." But not enough to restrain Albertson's from going into competition with Super Foods.

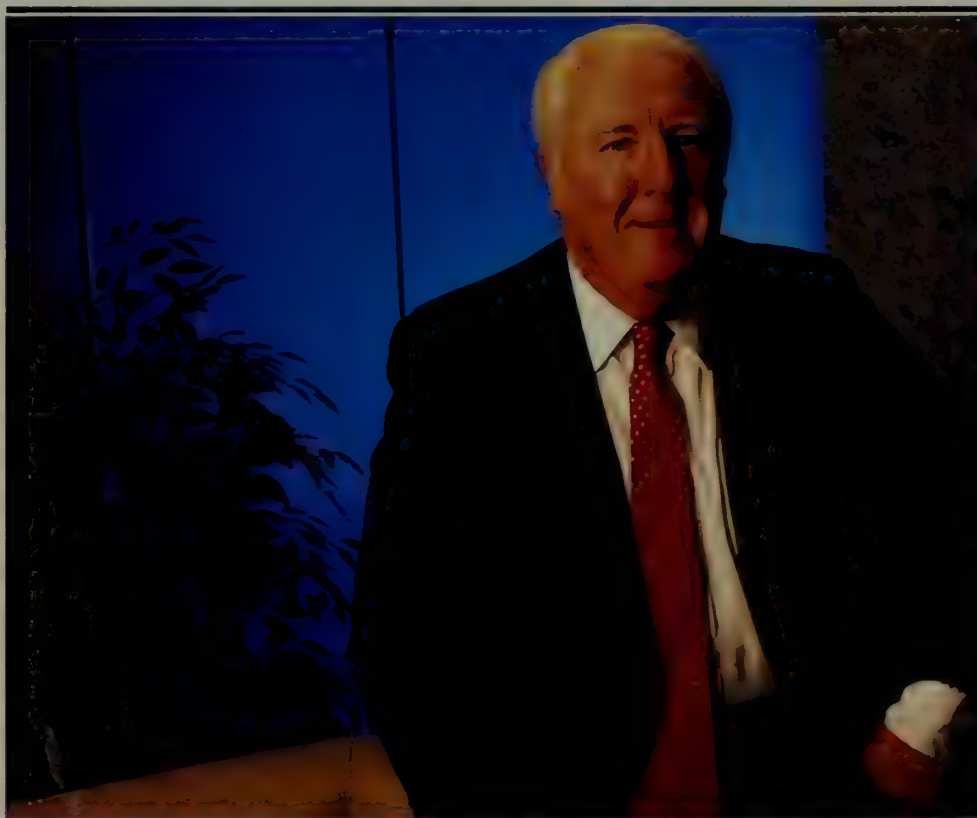
Twyman should have heard a penny drop in 1989, when Albertson's began to phase out Fleming Cos., another big food wholesaler. That phaseout would leave Super Foods as Albertson's only significant outside supplier in the U.S. (in the important Florida market, where Albertson's then had 66 stores).

Another penny dropped in 1991 when Warren McCain, Albertson's chairman and chief executive for 14 years, retired. Twyman's friend and golfing partner, McCain probably would have continued doing business with Super Foods. But McCain's successor, Gary Michael, was determined to accelerate Albertson's plan to eliminate its middlemen. With many stores in Florida, Michael had plenty of reason to move quickly in the state.

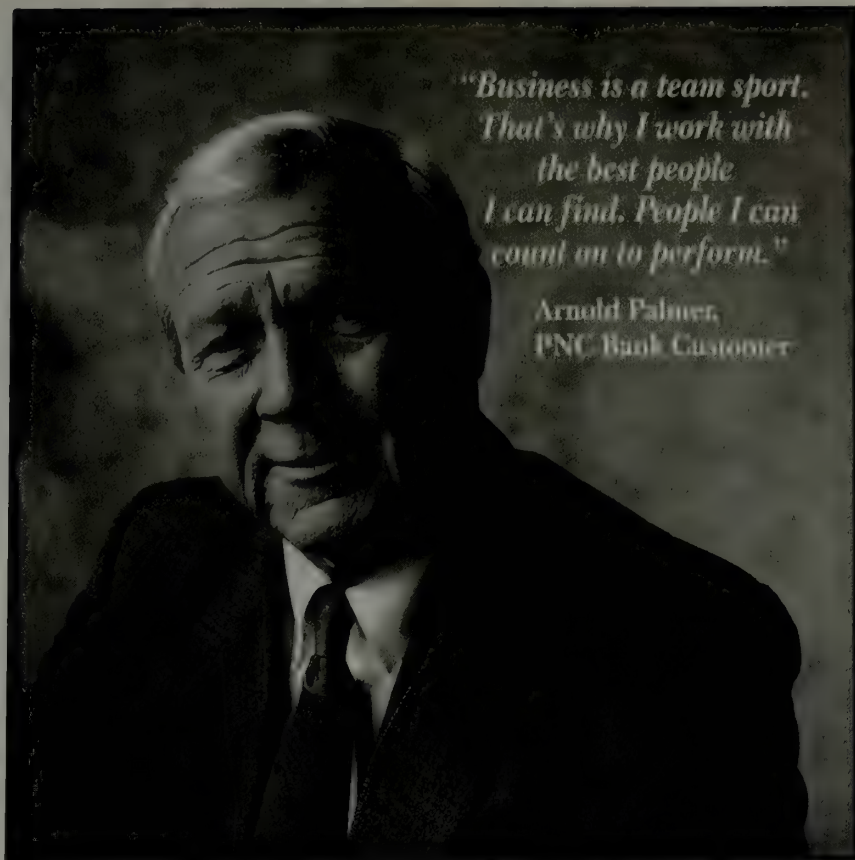
Why didn't Twyman pay closer attention to the warning bells? Perhaps his earlier successes convinced him that he could survive where other wholesalers were failing.

His record was indeed impressive. In the early 1980s Twyman invested heavily in technology and made Super Foods into a much more efficient and profitable company. Super Foods' margins grew from 0.3% in 1982 to 1% in 1990, and net income rose from \$3.6 million to \$17.2 million, increasing earnings per share nearly five times, from 34 cents a share to \$1.60.

The stock peaked at 22 a share in



Jack Twyman, Super Food Services' chairman and chief executive
"Our philosophy was to remain a food wholesaler."



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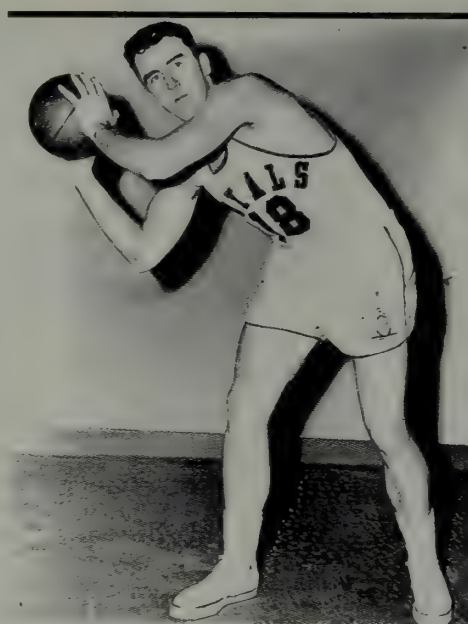
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Super Food Services

1989. Today, however, it trades at 11, up from a recent seven-year low of 8½. At the current price, the company is valued at just 9% of its \$1.3 billion likely revenues this year. Competitor Supervalu sells for 16% of its revenues.

These days Twyman is spending a lot of his time with lawyers. Over the years Super Foods invested some \$110 million in its distribution center in Orlando, Fla. The goal was to better serve Albertson's Florida stores. When Albertson's pulled out, Twyman closed the Orlando operations and took a \$23 million charge against earnings. Twyman claims that the facilities were custom-built at Albertson's request, and is now suing Albertson's for breach of contract.

The lawsuit also accuses Albertson's of breaking an agreement to purchase Super Foods' Florida distribution assets and inventory for \$60 million to \$80 million. This agreement was made in February 1992, after Albertson's decision to move to self-supply. But Albertson's lawyers point out that the agreement was contingent on a new collective bargaining agreement between Albertson's and the International Brother-



Jack Twyman, star forward and Basketball Hall of Famer

The rules of the game changed.

hood of Teamsters. A new contract was never ratified, so Albertson's claims it is off the hook for Super Foods' Orlando assets. The dispute eventually will be settled, but when and for how much no one can say.

Apart from its courtroom strate-

gies, how does Super Foods plan to recover? Twyman says he plans to lure customers away from competitors and make acquisitions of small regional wholesalers with sales in the \$100 million to \$200 million range. He also hopes to increase the amount of merchandise existing customers buy from Super Foods.

In 1991 Super Foods acquired Lexington-based Kentucky Food Stores, a regional food wholesaler that Twyman hopes to expand. But with only \$16 million in cash and a stock that's hovering around book value, financing more acquisitions won't be easy. Indeed, Super Foods itself is an attractive target—there is only \$54 million in long-term debt, and the company can probably earn \$1 a share on its shrunken revenue base. Insiders, including Dayton's wealthy Berry family, control just 8% of the stock. But right now Fleming and Supervalu, the two companies most likely to go after Super Foods, are both digesting recent acquisitions.

"We are survivors," Twyman gamely insists. But when companies fall behind in a fast-changing industry, catching up is hard to do.

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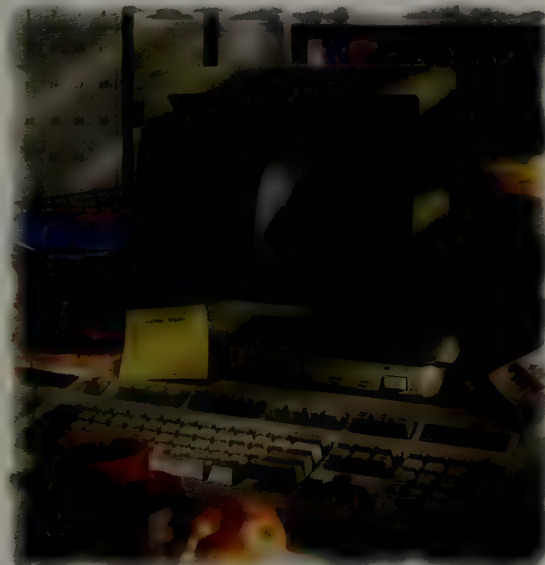
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"Hey!" Todd, Shipping



"Whoa!" Jan, Production

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WHEN FOUR MAJOR
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SUDDENLY PUT ON HOLD.**

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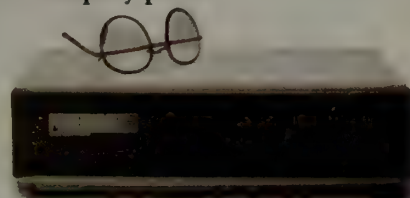
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computer manufacturers will tell you, every Powerware System comes with the invaluable service of the world's most knowledgeable power consultants. An entire team devoted solely to the purpose of keeping your network up and running even in the most adverse conditions.

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Do you really know how much you are paying in fees when you invest in a mutual fund? Here's how to avoid getting nicked by fee-greedy fundsters.

By Jason Zweig and Mary Beth Grover

IT SHOULD BE a buyer's market out there for mutual funds. Everybody wants to get into this extremely lucrative business, and almost anybody can get in: There are already 4,000 funds clamoring for investors' attention. New ones are rolling off the assembly line at the rate of one a day.

But all this creates a problem for even the most sophisticated investors. It is getting harder and harder to know how much you are paying for the fund manager's services. The fact is that some fund managements are getting ever more imaginative in soaking the customer. They often do so by confusing investors with complexity.

By our count, there are now nine different ways to reach into the fund buyer's pocket. We'd be surprised if the number didn't increase before year's end.

How do you, the investor, know whether you're paying too much for the fund manager's services? Here's our definition of a bad buy: a fund that costs 2% a year for the time you hold it. Our definition of a really bad buy: a fund

that eats away 3% of your money per year.

You can easily blunder into such a situation if you pay a load and leave quickly, or if you happen into a fund with an unusually high annual expense ratio.

Shearson's Advisors Fund, for example, runs an annual expense ratio of 3.86%; on top of this drag on performance there is a one-time sales commission that goes as high as 5% (on an investment of \$100,000 or less).

The Kaufmann Fund and the Prudent Speculator Leveraged Fund assess no sales loads but run annual expenses that are above 3%.

In the merely bad category are scores of funds with annual expenses over 2%.

What's so bad about a 2% fee for professional money management in a market that seems to be shooting up 15% a year? Just the fact that you can't count on that 15% for very long. Remember: You will still be nicked 2% if the fund loses money for you. With the market at an extremely high valuation by historical norms, it's reasonable to assume that stocks are due to deliver real (after inflation) returns of only 6% a year—before expenses, that is. A bad-buy stock fund, then, is fixing to take a third of the real money you can expect to earn on your investment. Or to aggravate any losses the fund may incur in bad markets.

Bond funds are not immune to these hidden costs. Given current inflation and interest rates, the real return on medium-to-long-term U.S. Treasury bonds will be about 4%. Bad-buy Treasury funds are gobbling up half your prospective earnings.

For decades this magazine and others have been educating the investing public about the virtues of comparison shopping for funds. Unless you really need hand-holding by a stockbroker, we have said, buy a no-load. You can usually find one to suit any need.

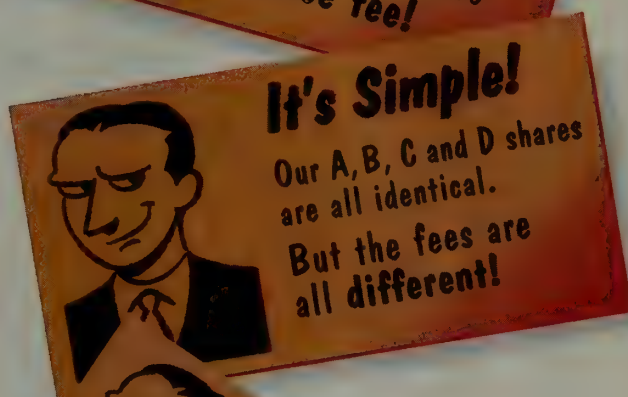
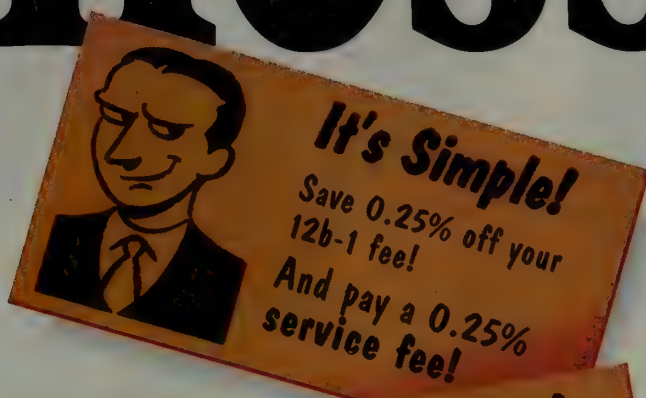
That message has finally sunk in, but load fund groups, confronted with clients who are wary of upfront sales commissions, are firing back with a dizzying assortment of other fees that accomplish the same purpose. A fund might eliminate its upfront sales charge but then throw in a 12b-1 fee to finance marketing and distribution costs. Or maybe it offers you a deal: We'll lower your annual 12b-1 fee by a quarter of a percentage point, but then we'll tack on an identical amount for "servicing."

The game board started getting really messy in 1988, when Merrill Lynch introduced dual-class shares in virtually all of its retail funds. The Class A shares carry a maximum 6.5% front-end load—every \$1 you put in buys

Fee



Madness



you 93.5 cents worth of fund shares, the rest going to the broker. The B shares carry no front-end load—\$1 buys you \$1—but the broker gets you on the way out. When you redeem a B share you could leave up to 4% with the broker. The idea of paying the load later seems to have big appeal. B shares are selling like hotcakes, and last year the Securities & Exchange Commission received 44 requests from fund companies to approve new multiclass shares.

In 1991 and 1992 PaineWebber thickened the alphabet soup with C and D shares. The C's have no load and no 12b-1, while the D's have no load but charge 1% in annual 12b-1 and "service" fees. The C's, of course, would be the best deal. But you can't buy them, unless you work for PaineWebber.

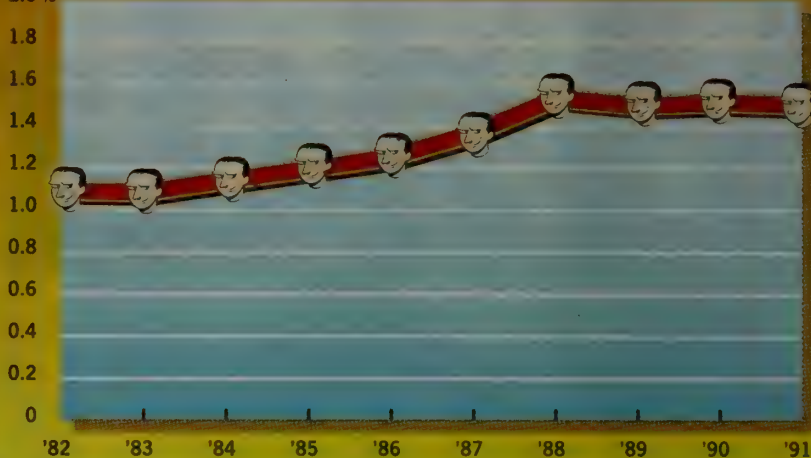
This labyrinthine game, so bewildering to the consumer, is a jackpot for fund companies and brokers. Last year, says Financial Research Corp. of Chicago, 60% of the multiclass funds sold by brokers—some \$17.3 billion worth—went into these new classes of shares. "That's a pretty compelling number when you consider that a lot of fund families just introduced them last year," says financial services consultant John Keefe.

Broker-sponsored funds are not the only ones confusing investors. Last month Dreyfus Corp. got the SEC's blessing to issue at least two classes of shares for all of its funds.



Rising expenses

Average annual expense ratios of all equity funds



Source: Lipper Analytical Services

As 12b-1 fees have helped finance a massive influx of shareholders, fund expenses should have come down. No such luck.

Fidelity, which sells mostly low- and no-load funds over the phone, is trying to keep its distribution options wide open. The fund giant has obtained permission to issue "an unlimited number" of classes.

This business is getting so out of hand that newspapers around the country are asking the Associated Press, which collects daily fund data, to limit its listings. Says Jill Arabas, who helps oversee fund tables at the AP: "The papers are freaking out, saying, 'Stop! We don't have room!'"

Don't look for any rescue from the folks who run the funds. Ostensibly, fund directors are there to represent your interests. They are, for example, supposed to approve 12b-1 assessments (named after an SEC regulation allowing them) only after determining that existing shareholders benefit when some of their money is spent to attract new customers.

With 12b-1 charges, funds can attract more customers and a greater pool of assets over which to spread fixed costs like legal and accounting fees—or so goes the logic behind the rule. Curious thing is that after years of ever more common 12b-1 plans, equity fund expense ratios refuse to come down (*see chart, above*).

Today 40% of equity funds carry 12b-1 fees. It's big business. In the first three quarters of last year, Dean Witter, with \$58 billion in fund assets under management, earned more from 12b-1s—\$175 million—than it did from management fees.

Just how does the fund in-

dustry play Fee Madness? Let's flip over some of the cards.

Buy now, pay later. Once called back-end loads, these shares, usually rechristened as Class B shares in multiclass funds, carry a higher 12b-1 fee than Class A. The typical Class B shareholder incurs a load only on selling the shares; this back-end load falls from 5% or 6% to zero within five to eight years. Many B shares convert to Class A at the end of this waiting period.

Brokers push these funds as quasi-no-loads. Yes, there's a sales commission, but stick around long enough and you don't have to pay it. That's how most short-term global bond funds were flogged last year. When investors stampeded out after Europe's currency upheaval last fall, they suddenly found themselves paying loads they had forgotten about. The loads accentuated their losses.

Among the big buyers of B shares are bank customers fleeing certificates of deposit.

"It's easier to sell them funds that have the appearance of no-loads," says consultant Keefe. Last year, for example, 50% of Putnam's B shares were sold to bank customers.

Do the buyers know what they have gotten into? Many do not. Warns Tom Decker Seip, mutual fund chief at Charles Schwab: "As surely as the sun rises tomorrow, you can bet that if interest rates go up and bond fund prices fall, people will be screaming that their salesman didn't tell them about the back-end load."

Even if the funds do well, people will be screaming about the paperwork. Take



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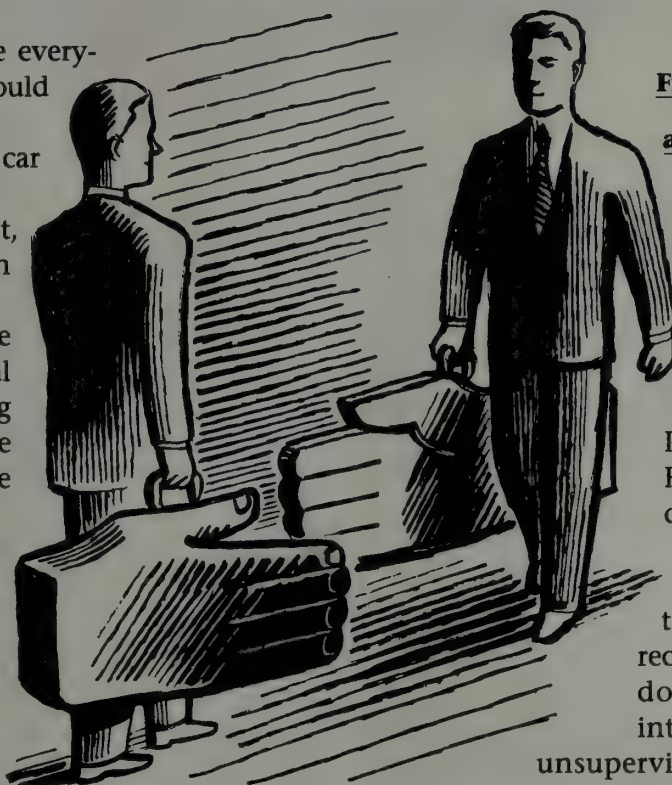
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the befuddling bifurcation of Kemper Growth Portfolio, an equity fund that is split into "initial" and "premier" shares. The initial shares charge a 0.75% 12b-1 fee—that is, the investor is nicked 75 cents per year for every \$100 invested in the fund. The premier shares do not pay this annual charge. Initials convert to premiers after six years. The two classes have separate daily net asset values and different returns.

And what if you buy a little of the fund every month? Each purchase is tracked separately, has one of three different back-end loads, depending on when you sell, and converts on a different date. Tell that to your accountant when you make a partial withdrawal from the account.

Buy now, pay forever. Welcome to the world of "level-load" shares. Getting into one of these funds is like getting trapped in a taxi with the meter running. Pioneered by Thomson and PaineWebber, this kind of fund is being considered by Alliance, Colonial, Putnam and others. Most level-load shares charge no front-end load but an annual 0.75% 12b-1 and a 0.25% service fee—forever. Both these charges are added to the regular management fee, which alone can easily top 1% a year.

Who sold you this thing? Then there are the ASO Outlook funds managed by AmSouth Bancorp. of Birmingham, Ala. According to a November SEC filing, these include: Class A, sold through AmSouth branches or outside brokers, carrying a front-end load yet to be determined and a maximum 0.40% 12b-1 fee; Class B, sold mainly to other financial institutions, charging no load but carrying a 0.25% 12b-1 fee; and Class C, sold through the bank's trust department, charging no load and no 12b-1. Buy through a broker, buy through a bank or buy through the trust department: different fees each time.

Pay twice. Fund shareholders may find themselves paying for a broker's "services" years after forking over a sales commission. In January Seligman piled on a maximum 0.25% annual service fee for the benefit of the chap who sold you the fund; this is on top of the maximum 4.75% front-end load shareholders had already paid.

Get a price cut, and still pay the same. Buy Eaton Vance's new Greater China Growth Fund, and you pay a 0.50% 12b-1 fee in the first year. The second year, your 12b-1 fee drops to 0.25%, but a 0.25% "service fee" miraculously appears. Even if you fire the broker, you still pay the fee.

Pay to stay. Most fund operators are thrilled to have customers reinvest their dividends—it gives them more assets on which to assess



management fees. Franklin Resources, though, charges investors in most of its bond funds a 4% commission to reinvest their income dividends. Of Franklin's \$331 million in fee revenue in fiscal 1992, close to \$30 million came from dividend loads. A handful of other funds assess reinvestment loads.

Pay à la carte. Fidelity's Spartan funds have low annual expenses (lower than other Fidelity funds, anyway) but charge customers with less than \$50,000 a \$5 fee for each withdrawal or transfer.

Pay a flat load. Is the Blanchard Short-Term Global Income Fund a no-load? Blanchard will sell you shares directly with no sales charge—

but you will have to fork over a \$75 "account opening fee." On the minimum \$3,000 investment, that's the equivalent of a 2.5% load.

A sister to the flat load is the flat annual expense charge. Thus, the Vanguard Extended Market Portfolio boasts of its low 0.19% annual expense ratio but doesn't include the flat \$10-a-year account maintenance charge. On a \$3,000 minimum investment, this \$10 fee almost triples the published expense ratio, to 0.52%.

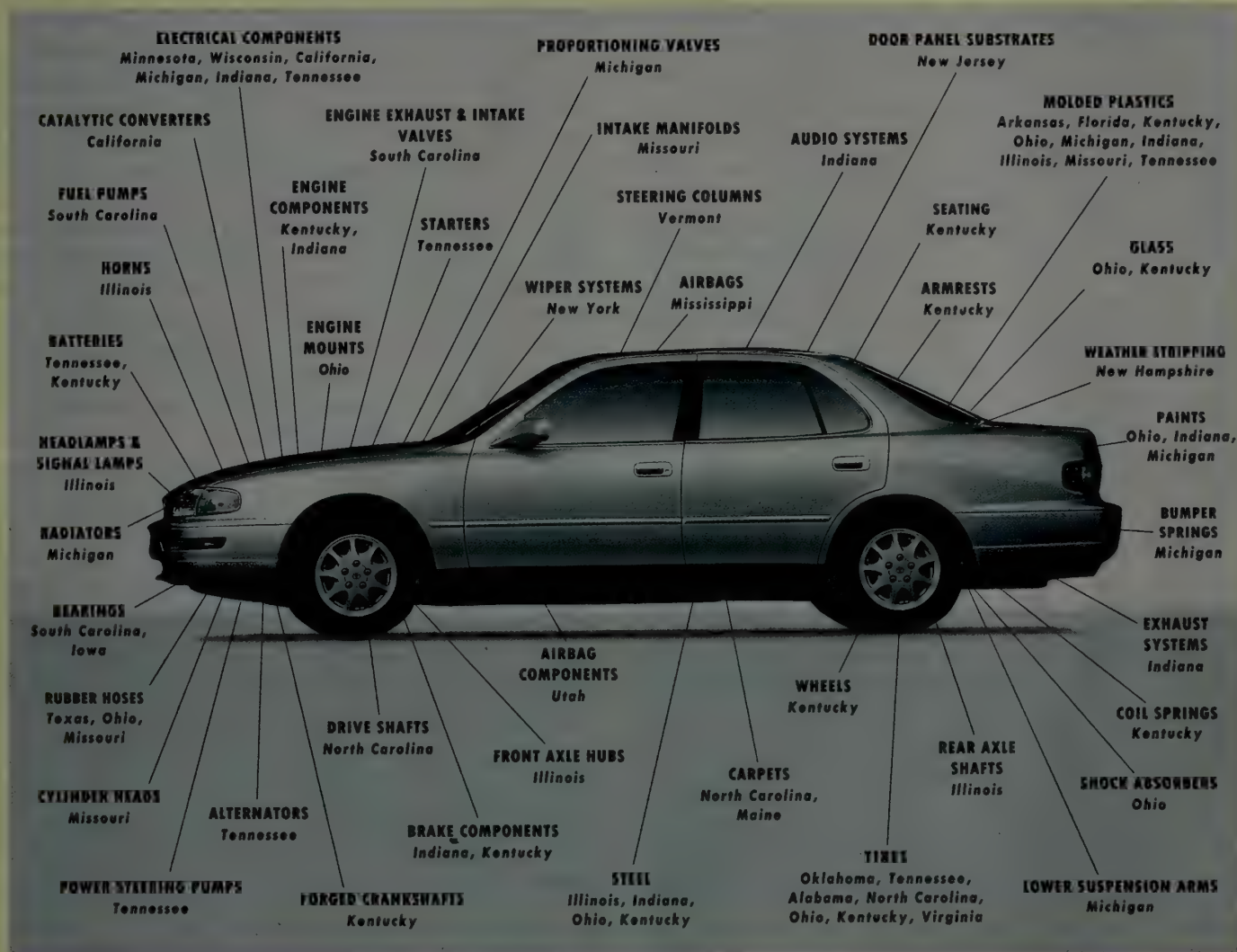
Pay a surprise increase. The Scudder Medium Term Tax Free Fund charges no annual expenses at all. What is this, a charity? No, just a come-on rate. Scudder is temporarily absorbing costs totaling 0.77% a year. The sale could end as soon as June 30—or maybe not. Sponsors of at least 522 funds are absorbing expenses. They figure inertia will keep the customers even after the sale is over.

If all this sounds like nickeling-and-diming and not worth getting exercised about, consider this: The difference between 1% in fund expenses and 2% can make a mighty difference in your long-term return. Assuming stocks deliver their historical return of 10%, over ten years that extra charge will reduce your return by more than \$2,250 on a \$10,000 investment. The relative damage could be far greater if—as is not at all unlikely—the market hits some bad patches over the next few years.

So stick to funds with low overall costs. Keep a close eye on the annual expense figure. The tables that begin on page 166 should help you. In addition to performance ratings for bull and bear markets, the tables show a composite expense estimate for each fund. This figure combines the effect of an upfront sales load with five years of total annual expenses, assuming a \$1,000 investment. The number is similar to, but a little lower than, the five-year expense projection published at the front of a fund prospectus.



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Explanations

The five-year cumulative expense is the sum of the maximum upfront load plus five years of expenses at recent rates, for a hypothetical \$1,000 account experiencing no investment gains. If the fund has multiple classes of shares, data are for the class with a front-end load. Morningstar, Inc. provided these figures. The 12-month total return is calculated before the effect of the sales load.

Stock and balanced funds

The Acorn Fund is one of the more attractive funds in the table below. One reason is Acorn's 24.2% total return in 1992, compared with 7.6% for the S&P 500. Another is Acorn's long-term performance: It earned an A rating for its bull-market perfor-

front-end or back-end sales load nor a 12b-1 fee for marketing and distribution.

To be listed, a fund must have at least \$25 million in assets. Funds earn a FORBES rating only after wading through at least two full market cycles. The last two up-and-down cycles go back to June 1983 for stock funds, April 1983 for balanced funds, July 1984 for foreign funds, and August 1987 for global funds. Funds are rated by comparing their performance with funds of the same type and with market benchmarks. The S&P 500 is the benchmark for stock funds; a blend of the S&P 500 and the Merrill Lynch corporate/government bond index is used to rate balanced funds. A dollar-denominated index of foreign stocks from Morgan Stanley is the benchmark for foreign funds. The benchmark for global funds is a combination of the S&P 500 and the Morgan Stanley index.

mance and has fared as well as the average stock fund in bear markets. Better still, with a five-year cumulative expense of \$36, Acorn ranks among the cheapest-run stock and balanced funds. Note the asterisk next to Acorn's name: It indicates that the fund levies neither a

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
ABT Growth & Income Trust	D	D	3.3%	\$109
ABT Invest–Emerging Growth	A	D	13.9	127
ABT Utility Income Fund	F	A	10.4	105
Acorn Fund*	A	C	24.2	36
Adams Express*	C	B	9.6	23
Affiliated Fund	C	B	12.3	87
AIM Equity–Charter Fund	B	C	1.1	113
AIM Equity–Constellation Fund	A+	F	15.0	115
AIM Equity–Weingarten Fund	A+	D	–1.4	110
AIM Growth Fund	C	C	0.1	115
AIM Summit Fund	B	D	4.5	123
Alliance Balanced Shares (B)	C	C	6.8	126
Alliance Fund	A	D	14.7	97
Alliance Global–Small Cap	D	D	–4.9	169
Alliance Growth & Income	C	B	4.5	112
Alliance International Fund (F)	B	C	–5.9	146
Alliance Quasar Fund	B	D	2.8	137
Alliance Technology Fund	A	D	15.5	132
Amcap Fund	C	B	7.2	95
American Balanced Fund (B)	B	B	9.4	99
American Capital Comstock	B	A	6.4	99
American Capital Convert Secs* (B)	C	B	12.1	45e
American Capital Emerging Grow	B	A	9.4	115
American Capital Enterprise	B	D	7.9	106
American Capital Equity Income (B)	C	B	10.7	109

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
American Capital Growth & Inc	D	B	9.4%	\$115
American Capital Harbor Fund (B)	C	D	9.6	103
American Capital Pace Fund	C	A	4.2	108
American Growth Fund	F	A	12.6	158
American Investors Growth	F	F	-12.4	127
American Leaders Fund	D	A	11.6	96
American Mutual Fund	D	A	7.7	89
American National Growth	C	C	-2.4	112
American National Income	D	A+	3.3	122
Amway Mutual Fund	C	C	1.4	85e
Analytic Optioned Equity Fund*	F	A	6.2	60
ASA Limited* (F)	D	D	-27.3	33e
Babson Growth Fund*	C	D	9.1	43
Baker, Fentress & Co*	F	C	5.4	40
Bancroft Convertible Fund* (B)	F	D	15.5	60
Bartlett Capital-Basic Value*	D	A	10.2	60
Berger One Hundred	A+	D	8.5	112
Berger One Hundred and One	C	B	4.8	133
Bergstrom Capital*	A+	A	1.1	44e
Wm Blair-Growth*	B	C	7.6	43
Blanchard Global Growth (G)	C	A	0.7	116
Boston Co Capital Appreciation	D	C	4.0	61
Bull & Bear Gold Investors (G)	D	C	-17.2	148
Bull & Bear Special Equities	F	D	16.0	150
Burnham Fund	D	B	7.6	110

*Fund has no load or shareholder-paid 12b-1 plan. † See box above for explanation. e: Estimate. (B): Balanced. (F): Foreign. (G): Global.

Sources: CDA/Wiesenberger; Lipper Analytical Services; Morningstar; Forbes.

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†	Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
Calvert Social Inv-Managed Grow (B)	C	D	7.4%	\$112	Evergreen Total Return Fund*	D	A	9.9%	\$61
Capstone US Trend	C	D	0.7	99	FBL-Growth Common Stock	F	C	10.1	85
Cardinal Fund	C	B	9.8	119	Federated Stock & Bond Fund* (B)	D	A	7.3	52
Castle Convertible Fund* (B)	D	A	16.6	55	Federated Stock Trust*	D	A	11.9	50
Central Securities*	C	D	26.9	40	Fidelity Advisor Equity-Income	C	B	14.7	81e
Century Shares Trust*	A	A	27.0	48	Fidelity Contrafund	A+	C	15.8	73
CGM Capital Development*	A+	B	17.5	43	Fidelity Destiny Portfolio I*	A	B	15.1	113
CGM Mutual Fund* (B)	A+	D	6.0	47	Fidelity Equity-Income	D	A	14.6	54
Clemente Global Growth Fund* (G)	B	C	-3.1	136	Fidelity Fund*	C	B	8.4	34
Colonial Fund (B)	A	D	12.3	110	Fidelity Growth Company	A	D	7.9	85
Colonial Growth Shares Trust	B	D	11.0	115	Fidelity Magellan Fund	A+	A	6.8	83
Colonial Natural Resources (G)	F	F	-7.3	159e	Fidelity Puritan Fund (B)	A	B	15.4	52
Colonial Strategic Income (B)	D	D	9.8	106	Fidelity Retirement Growth*	B	C	10.4	53
Colonial Utilities Fund (B)	D	B	21.0	93	Fidelity Select-American Gold (G)	D	A	-3.1	118
Columbia Growth Fund*	B	C	11.8	43	Fidelity Select-Energy	F	C	-2.4	119
Composite Bond & Stock Fund (B)	D	B	9.9	99	Fidelity Select-Financial Services	A	B	42.3	123
Composite Growth Fund	D	A	11.0	100	Fidelity Select-Health Care	A+	D	-17.4	102
Copley Fund*	D	A	17.7	69	Fidelity Select-Prec Metals & Mins (F)	D	D	-21.9	121
Dean Witter American Value	B	C	3.8	89	Fidelity Select-Technology	B	F	9.4	116
Dean Witter Developing Growth	D	D	-2.5	93	Fidelity Select-Utilities	C	A	10.4	106
Dean Witter Dividend Growth	C	A	5.8	71	Fidelity Trend Fund*	A	D	16.7	25
Dean Witter Natural Resource Dev	F	C	6.7	97	Fidelity Value Fund*	B	B	21.1	50
Dean Witter World Wide Inv (G)	C	C	-7.5	114	Fiduciary Capital Growth*	D	C	14.4	70
Delaware Group Decatur I	D	A	8.8	121	Financial Dynamics Fund	A	D	13.2	59
Delaware Group Trend Fund	A+	C	22.4	117	Financial Industrial Fund	B	C	2.9	52
Dodge & Cox Balanced Fund* (B)	B	C	10.6	33	Financial Industrial Income	B	B	1.0	49
Dodge & Cox Stock Fund*	B	B	10.8	32	Financial Strategic-Pacific Basin* (F)	A	C	-13.6	94
Dreyfus Capital Growth	D	C	6.2	87	First Investors Global Fund (G)	C	D	-4.8	161
Dreyfus Convertible Securities* (B)	D	C	3.8	54	Flex-funds-Growth Fund	F	A	6.4	75
Dreyfus Fund*	D	B	5.5	39	Fortis Capital Fund	B	B	6.5	109
Dreyfus Growth Opportunity Fund*	C	D	-4.2	48	Fortis Fiduciary Fund	A	C	6.8	121
Dreyfus Strategic World Inv (G)	C	A	-2.7	111	Fortis Growth Fund	A	C	0.9	104
Dreyfus Third Century Fund*	C	D	1.9	54	Founders Blue Chip Fund	C	C	-0.5	62
Eaton Vance Growth Fund	B	B	5.4	91	Founders Growth Fund	B	C	4.3	78
Eaton Vance Investors Fund (B)	C	C	6.4	91	Founders Special Fund*	A	D	8.2	64
Eaton Vance Special Equities	B	B	2.6	97	FPA Capital Fund	A	C	21.0	119
Eaton Vance Stock Fund	C	B	7.0	94	FPA Paramount Fund	B	A	9.5	111
Eaton Vance Total Return Trust	D	A	6.6	123	Franklin DynaTech Fund	C	D	4.2	80
Enterprise Group-Growth	B	B	6.5	128	Franklin Equity Fund	C	D	3.6	75
Equity Strategies Fund*	C	C	2.7	56	Franklin Gold Fund (F)	C	D	-20.3	56
EuroPacific Growth Fund (F)	C	C	2.3	120	Franklin Growth Fund	C	B	2.9	72
Evergreen Fund*	C	C	8.7	57	Franklin Income Fund (B)	C	B	14.9	67
Evergreen Limited Market Fund*	A	A	9.9	63	Franklin Utilities Fund	D	A+	9.0	68

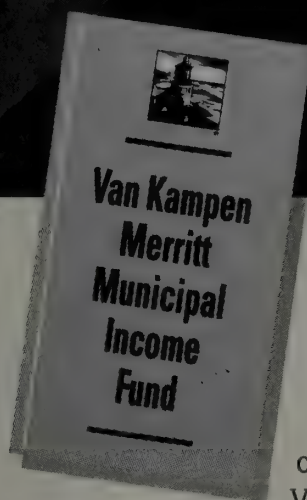
*Fund has no load or shareholder-paid 12b-1 plan. † See page 166 for explanation. e: Estimate. (B): Balanced. (F): Foreign. (G): Global.
Sources: CDA/Wiesenberger; Lipper Analytical Services; Morningstar; Forbes.

STOCK AND BALANCED FUNDS

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†	Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
Fundamental Investors	B	B	10.1%	\$92	Keystone Custodian S-3	B	D	5.0%	\$85
Gateway Index Plus Fund*	D	A	5.2	57	Keystone Custodian S-4	A	F	8.9	74
General American Investors*	A+	C	3.7	51e	Keystone International Fund (F)	C	C	2.4	172
General Securities	D	B	6.0	120e	Keystone Precious Metals (F)	D	D	-13.6	135
George Putnam Fund of Boston (B)	B	C	7.9	111	Kleinwort Benson Intl Equity* (F)	C	C	-3.4	94
Gintel Erisa Fund	D	A	14.4	75	Legg Mason Value Trust	C	B	11.4	95
Gintel Fund*	C	B	24.6	70	Lexington Corp Leaders Trust*	B	B	9.6	32
Growth Fund of America	B	B	7.4	97	Lexington Global Fund* (G)	B	C	-3.5	77
GT Global Growth-Pacific (F)	B	B	-8.0	148	Lexington Goldfund (G)	D	B	-20.5	78
GT Global Growth-Worldwide (G)	A	C	3.3	153	Lexington Growth & Income	D	C	12.4	55
Guardian Park Avenue Fund	A	B	20.4	79	Lexington Worldwide Emerg Mkts* (F)	C	A	3.8	94
Hancock Freedom Global (G)	B	D	-0.3	137e	Lindner Fund*	D	A+	12.8	40
Hancock Freedom Global Tech	D	C	5.4	158	Lord Abbett Developing Growth	D	D	-3.1	115
Hancock Freedom Natl Av & Tech	D	D	2.8	131	Lord Abbett Value Appreciation	B	C	13.6	115
Hancock Growth Fund	B	D	6.0	129	Lutheran Brotherhood Fund	C	A	5.8	100
Hancock Sovereign Inv	C	A	7.2	108	Mairs & Power Growth Fund*	B	C	4.4	55e
Hartwell Emerging Growth	A+	F	1.0	126	Horace Mann Growth Fund*	C	D	9.7	38e
IAA Trust Growth	D	C	2.1	73e	Mass Investors Growth Stock	B	C	6.4	90
IAI Regional Fund	A	B	3.5	63	Mass Investors Trust	B	C	7.5	88
IAI Stock Fund	D	B	3.9	63	Mathers Fund*	D	C	3.1	47
IDS Discovery Fund	A	D	8.6	102	Merrill Lynch Basic Value	D	B	10.4	94
IDS Equity Plus Fund	B	C	10.5	87	Merrill Lynch Capital Fund	C	A	4.9	92
IDS Growth Fund	A	D	8.1	94	Merrill Lynch Healthcare (G)	C	C	3.7	143
IDS Mutual Fund (B)	B	C	10.4	88	Merrill Lynch Intl Holdings (G)	C	B	4.1	140
IDS New Dimensions Fund	A	C	5.3	97	Merrill Lynch Pacific Fund (F)	A	B	-8.4	116
IDS Progressive Fund	D	B	20.2	101	Merrill Lynch Phoenix Fund (B)	B	C	26.5	135
IDS Stock Fund	C	B	6.8	86	Merrill Lynch Special Value	F	D	17.0	143
Income Fund of America (B)	B	A+	12.0	91	Merrill Lynch Technology (G)	D	D	21.7	65
Investment Co of America	B	B	7.0	87	Mexico Fund* (F)	A	A+	12.1	56
Investors Research Fund	D	D	-9.7	113	MFS Capital Development Fund	C	C	7.7	102
Ivy Growth Fund	C	A	5.2	123	MFS Emerging Growth Fund	A	D	7.3	129
Janus Fund*	A	A	6.9	48	MFS Lifetime Worldwide Equity (G)	C	D	1.6	143
Japan Fund* (F)	B	C	-16.7	73	MFS Research Fund	D	D	11.0	100
JP Growth Fund	C	B	5.6	99	MFS Special Fund	B	C	17.9	134
Kemper Growth Fund	A	D	-1.6	110	MFS Total Return Fund (B)	A	C	10.1	90
Kemper International Fund (F)	C	B	-4.8	128	MSB Fund*	D	C	10.7	93
Kemper Small Cap Equity	A	D	0.0	121	Mutual Benefit Fund	B	B	10.5	90
Kemper Technology Fund	C	D	-1.3	98	Mutual of Omaha Growth	A	C	1.2	109
Kemper Total Return Fund (B)	A+	D	2.5	109	Mutual of Omaha Income (B)	D	A	7.6	100
Keystone America Omega	A	F	3.8	125	Mutual Series-Beacon*	C	C	22.8	43
Keystone Custodian K-1 (B)	C	C	3.4	99	Mutual Series-Mutual Shares*	C	A+	21.3	41
Keystone Custodian K-2	B	D	8.2	81	Mutual Series-Qualified*	C	A+	22.6	42
Keystone Custodian S-1	D	C	0.0	104	National Income & Growth (B)	D	B	11.9	127

*Fund has no load or shareholder-paid 12b-1 plan. † See page 166 for explanation. e: Estimate. (B): Balanced. (F): Foreign. (G): Global.
Sources: CDA/Wiesenberger; Lipper Analytical Services; Morningstar; Forbes.

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STOCK AND BALANCED FUNDS

Fund	Performance in		12-month total return	5-year cumulative expense†	Fund	Performance in		12-month total return	5-year cumulative expense¹
	UP	DOWN				UP	DOWN		
—markets—					—markets—				
National Industries Fund*	D	D	-0.5%	\$75	T Rowe Price OTC	D	B	13.2%	\$67
National Stock Fund	C	B	16.8	126	Princor Capital Accumulation	D	A	8.9	96
National Total Return Fund (B)	B	C	9.7	125	Princor Growth Fund	A	D	10.1	104
Nationwide Fund	B	B	3.0	105	ProvidentMutual Growth	C	B	1.7	139
Nationwide Growth Fund	C	B	6.3	108	ProvidentMutual Investment Shrs	F	B	2.2	135
N & B Guardian Fund*	A	C	19.0	42	ProvidentMutual Total Return (B)	D	C	12.9	136
N & B Manhattan Fund*	A	C	17.8	55	Prudential Equity Fund	B	B	13.6	98
N & B Partners Fund*	C	A	17.5	43	Prudential Global Fund (G)	C	D	-4.5	135
N & B Selected Sectors*	B	D	21.1	47	Prudential Growth Fund	D	C	4.5	123e
New Perspective Fund (G)	B	A	4.0	101	Prudential Growth Opportunity	B	D	21.2	121
New York Venture Fund	A	C	12.1	93	Prudential Utility Fund	B	A	9.9	97
Nicholas Fund*	B	A	12.6	39	Putnam Convert Income-Growth (B)	B	D	21.1	115
Northeast Investors Growth*	B	C	-0.8	73	Putnam Energy-Resources Trust	D	F	6.8	138
Oppenheimer Equity Income	D	B	7.1	99	Putnam Fund for Growth & Inc	C	B	11.7	105
Oppenheimer Fund	D	F	8.3	112	Putnam Global Growth (G)	A	C	0.2	131
Oppenheimer Global Fund (G)	A	B	-14.2	125	Putnam Health Sciences Trust	A	D	-10.5	118
Oppenheimer Gold & Spec Mins (G)	C	C	-10.1	127	Putnam Investors Fund	C	D	7.9	105
Oppenheimer Special Fund	B	C	13.3	103	Putnam OTC Emerging Growth	A	C	12.4	127
Oppenheimer Target Fund	C	D	10.3	110	Putnam Strategic Income	D	B	4.8	118
Oppenheimer Time Fund	B	D	1.6	106	Putnam Vista Fund	A	B	17.4	106
Oppenheimer Total Return	B	D	12.7	104	Putnam Voyager Fund	A+	D	9.6	118
PaineWebber Atlas Global Growth (G)	B	C	-8.5	127	Quest for Value Fund	C	A+	17.8	141
Pax World Fund (B)	C	C	0.6	55	Rea-Graham Balanced Fund (B)	C	C	4.2	152
Penn Square Mutual Fund	D	B	8.7	95	Royce Fund-Value	D	B	16.0	116
Pennsylvania Mutual Fund	C	B	16.2	46	Safeco Equity Fund*	B	C	9.3	49
Permanent Port-Permanent (B)	D	C	2.5	64	Safeco Growth Fund*	C	C	-3.1	47
Petroleum & Resources Corp*	D	D	5.8	29	Safeco Income Fund*	D	A	11.5	47
Philadelphia Fund	D	C	19.7	91	Salomon Brothers Capital	C	B	4.9	119
Phoenix Balanced Fund (B)	A	D	6.7	99	Salomon Brothers Fund*	D	B	3.3	22e
Phoenix Convertible Fund (B)	C	B	12.9	111	Salomon Brothers Investors	C	B	7.3	85
Phoenix Growth Fund	B	A	4.3	108	Salomon Brothers Opportunity*	C	B	13.8	65
Phoenix Stock Fund	C	B	7.6	113	Scudder Capital Growth*	A	C	7.0	52
Phoenix Total Return	D	B	10.3	126	Scudder Development Fund*	A	C	-1.9	65
Pilgrim MagnaCap Fund	C	C	8.0	110	Scudder Global Fund* (G)	A	C	4.5	80
Pioneer Fund	C	D	13.6	101	Scudder Growth & Income Fund*	C	C	9.5	48
Pioneer II Fund	C	B	9.2	100	Scudder International Fund* (F)	C	B	-2.7	65
Pioneer Three Fund	B	B	19.9	95	Security Action Fund	C	C	5.3	124
T Rowe Price Balanced* (B)	B	D	2.0	50	Security Equity Fund	A	D	10.7	112
T Rowe Price Growth & Income*	C	B	15.3	45	Security Investment Fund	F	C	4.8	122
T Rowe Price Growth Stock Fund*	C	D	6.0	43	Security Ultra Fund	D	F	7.6	138
T Rowe Price Intl Stock* (F)	B	B	-3.5	55	Selected American Shares	B	A	5.9	100
T Rowe Price New Era Fund*	D	D	2.1	42	Selected Special Shares	C	D	8.3	70
T Rowe Price New Horizons Fund*	B	D	10.3	48	Seligman Capital Fund	A	D	11.5	98

*Fund has no load or shareholder-paid 12b-1 plan. † See page 166 for explanation. e: Estimate. (B): Balanced. (F): Foreign. (G): Global. Sources: CDA/Wiesenberger; Lipper Analytical Services; Morningstar; Forbes.

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†	Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
Windsor Common Stock Fund	B	B	10.9%	\$84	20th Century Select Investors*	B	C	-4.4%	\$50
Windsor Growth Fund	B	D	11.3	86	20th Century Ultra Investors*	A+	F	1.3	50
Windsor Income Fund (B)	D	A	17.5	90	UMB Stock Fund*	C	B	7.1	43
Windsor Balanced Fund (B)	C	B	6.2	125	United Accumulative Fund	C	B	14.2	117
Windsor Common Stock Fund	B	A	5.8	121	United Continental Income Fund (B)	A	D	10.4	125
Windsor Growth Fund	B	C	6.0	105	United Income Fund	B	A	12.0	118
Windsor Fund*	B	D	7.5	42	United International Growth (F)	C	A	-1.1	144
Windsor Fund*	C	A+	9.3	50	United New Concepts Fund	B	C	4.5	147
Windsor Appreciation	B	B	6.2	90	United Retirement Shares (B)	A	C	12.8	126
Windsor Fundamental Value	D	B	14.8	114	United Science & Energy Fund	B	C	-4.0	129
Windsor Global Oppors (G)	C	D	-6.3	130	United Services-Global Res* (G)	D	C	-2.7	117
Windsor Invest-Special Equities	D	D	9.1	116	United Services-Gold Shares* (F)	D	F	-50.8	77
Windsor New Beginning Growth Fund*	A	C	-2.1	42	United Services-World Gold* (G)	D	D	-4.7	110
Windsor New Beginning Income & Growth*	C	B	4.9	75	United Vanguard Fund	D	B	3.4	133
Windsor Barney Equity Fund	D	C	0.7	95	USAA Investment-Cornerstone* (G)	B	B	6.3	60
Windsor Barney-Income & Growth	D	A+	7.2	94	USAA Mutual-Aggressive Growth*	C	D	-9.3	40
Windsor Gen International Fund	D	A+	8.5	106	USAA Mutual-Growth Fund*	C	D	9.8	55
Windsor Source Capital Fund*	D	A+	13.2	49	Value Line Fund*	B	C	4.5	36
Windsor State Bond Common Stock Fund	B	D	0.8	109	Value Line Income Fund*	D	A	1.7	44
Windsor State Bond Diversified Fund	C	B	1.5	109	Value Line Leveraged Growth Inv*	B	A	-2.5	45
Windsor State Street Investment Trust	B	C	6.3	70	Value Line Special Situations*	D	D	-3.5	52
Windsor SteinRoe Capital Opportunities*	D	F	2.4	54	Van Eck Gold/Resources Fund (G)	D	B	-4.5	149
Windsor SteinRoe Special Fund*	A	C	13.9	50	Van Eck International Investors (F)	C	D	-29.1	144
Windsor SteinRoe Stock Fund*	B	D	8.2	46	Van Eck World Trends Fund (G)	D	B	-8.5	141
Windsor SteinRoe Total Return Fund* (B)	C	F	7.9	42	Vanguard Explorer Fund*	C	D	13.0	33
Windsor Stratton Growth Fund*	D	C	6.6	68	Vanguard Index-500 Portfolio*	B	C	7.4	10
Windsor Stratton Monthly Dividend Shares*	D	A+	10.3	62	Vanguard/Morgan Growth*	B	C	9.5	25
Windsor Strong Investment Fund (B)	F	A	3.2	60	Vanguard Small Cap Stock	C	D	18.1	9
Windsor Strong Total Return Fund (B)	D	B	9.5	65	Vanguard Special-Gold & Prec (F)	D	C	-19.4	18
Windsor Templeton Emerging Markets* (G)	A	A	9.1	96	Vanguard Trustees Comm-Intl* (F)	B	C	-8.7	22
Windsor Templeton Foreign Fund (F)	C	A	0.1	105	Vanguard Trustees Comm-US*	C	B	6.4	29
Windsor Templeton Growth Fund (G)	B	B	4.1	102	Vanguard Wellesley Income Fund* (B)	C	A	8.6	19
Windsor Templeton Income Fund (G)	C	A	3.1	94	Vanguard Wellington Fund* (B)	B	C	7.9	19
Windsor Templeton Smaller Cos Growth (G)	B	D	3.4	124	Vanguard Windsor Fund*	C	A	16.3	14
Windsor Templeton World Fund (G)	C	C	3.1	101	Vanguard World-Intl Growth* (G)	C	C	-5.8	29
Windsor TNE Growth Fund	A	B	-6.7	122	Vanguard World-US Growth* (G)	A	B	2.8	25
Windsor TNE Growth Opportunities	C	D	9.3	118	Washington Mutual Investors	B	A	9.1	95
Windsor TNE Retirement Equity Fund	D	A	16.6	123	Winthrop Focus Funds-Aggressive	A	F	17.6	93
Windsor Thomson-International (G)	B	D	-4.9	138e	Winthrop Focus Funds-Growth	D	D	1.9	63
Windsor Transamerica Capital Apprec	D	C	5.4	132	Winthrop Focus Funds-Grow & Inc	D	C	5.8	68
Windsor Transamerica Growth & Income (B)	C	C	6.0	117	Worldwide Value Fund* (G)	D	D	-7.4	110
Windsor Tri-Continental Corp*	C	C	7.0	34	WPG Growth & Income Fund*	B	C	13.6	66
Windsor 20th Century Growth Investors*	A	D	-4.3	50	WPG Tudor Fund*	A	C	5.2	61

*Fund has no load or shareholder-paid 12b-1 plan. † See page 166 for explanation. e: Estimate. (B): Balanced. (F): Foreign. (G): Global.
Sources: CDA/Wiesenberger; Forbes; Morningstar.

Taxable bond funds

Most bond funds show sharply lower returns than they did one year earlier. Unlike in 1991—when falling interest rates boosted the value of bond portfolios—interest rates stayed fairly steady in 1992. Last year taxable bond fund returns were driven more by interest payments than by capital appreciation. The best 12-month returns came mostly from funds holding high-yield bonds. The median 12-month return for junk bond funds was 17.1%, versus 6.6% for high-grade bond funds.

To be listed, a bond fund must have \$100 million or more in assets and at least 12 months of performance. The five-year expense figure is particularly important for bond funds, since their performance otherwise tends to vary less than that of equity funds. The benchmark for high-grade bonds is the Merrill Lynch corporate/government bond index. We rate junk bond funds with \$100 million in assets and at least two full market cycles, comparing them with the Merrill Lynch High Yield Master Index.

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
AAL Bond Fund	B	C	6.6%	\$99
AARP Inc-GNMA & US Treasury*	D	B	6.6	36
AARP Inc-High Quality Bond*	C	C	6.2	55
ACM Government Income Fund*	A	D	9.0	79
ACM Government Opportunity*			5.9	61
ACM Government Securities*			9.6	77
ACM Government Spectrum*			6.5	63
ACM Managed Income Fund*			16.6	55
ACM Managed Multi-Market Tr* (I)			-4.6	149
Advantage Government Securities	C	C	9.8	70
AIM Government Securities	D	A	6.3	98
AIM High Yield Fund (J)	B	A	18.5	107
AIM Income Fund	A	D	7.4	98
AIM Limited Maturity Treasury Shs	F	A	5.9	42
Alliance Bond-High Yield (J)	C	D	16.2	125
Alliance Bond-US Government	C	C	6.0	104
Alliance Mortgage Secs Income	C	B	7.7	108
Alliance Multi-Market Inc & Grow (I)			2.0	145e
Alliance Multi-Market Strategy (I)			-2.5	163
Alliance Short-Term Multi-Market (I)			0.3	86
Alliance World Income (I)			1.7	83
Allstate Prime Income Trust			5.8	76e
American Adj Rate Term-1995*			5.2	36
American Adj Rate Term-1996*			5.3	31
American Capital Bond Fund*	C	D	9.3	36
American Capital Corp Bond	C	B	8.5	98
American Capital Federal Mort	D	B	3.1	98
American Capital Govt Secs	B	D	6.5	96
American Capital High Yld Inv (J)	C	D	17.3	101
American Capital Income Trust*			13.6	52e
American Government Income*			15.1	104
American Government Inc Port*			16.3	112
American High-Income Trust (J)			14.3	98
American Opportunity Income*			16.0	58
AMEV Securities*	D	A	9.1	41
Babson Bond-Portfolio L*	B	C	7.9	49

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
Bartlett Capital-Fixed Income*	C	C	6.9%	\$50
Benham GNMA Income*	B	B	7.7	31
Benham Target Maturities-2000*	A+	F	8.5	34
Benham Target Maturities-2005*	A+	F	9.6	34
Benham Target Maturities-2015*	A+	F	7.8	32
Benham Treasury Note Fund*	C	C	6.5	30
Bernstein Govt Short Duration*			5.4	33
Bernstein Intermed Duration*			7.7	32
Bernstein Short Duration +*			6.4	33
Blackrock Advantage Term Trust*			3.6	59
Blackrock Income Trust*			1.4	52
Blackrock Target Term Trust*			6.1	47
Wm Blair-Income*			7.2	46
Blanchard Short-Term Global Inc (I)			3.5	66
Bond Fund of America	C	B	11.4	86
Capital World Bond Fund (I)			0.8	119
Capstone Govt Income	F	A	3.6	55
Cardinal Government Obligations	D	A	6.4	82
Cigna High Income Shares* (J)			21.6	159
Colonial Federal Securities	A	D	6.2	111
Colonial High Yield Securities (J)	B	C	21.2	114
Colonial Income Fund	C	B	8.9	110
Colonial InterMarket Income I*			10.4	52
Colonial US Government	D	A	5.0	106
Columbia Fixed Income Secs*	A	D	8.0	33
Common Sense-Government	B	D	6.8	116
Composite US Govt Securities	C	C	6.1	90
Comstock Partners Strategy Fund			-2.5	101
Dean Witter Federal Secs	B	D	6.5	75
Dean Witter Global S-T Income (I)			2.2	77e
Dean Witter Government Income*			5.8	36
Dean Witter High Yield Secs (J)	A	F	24.2	94
Dean Witter Intermediate Income			6.3	84
Dean Witter Premier Income			4.1	87e
Dean Witter US Govt Securities	D	A	5.8	61
Dean Witter World Wide Income (I)			3.1	94

*Fund has no load or shareholder-paid 12b-1 plan. † See page 166 for explanation. e: Estimate. (I): International. (J): Junk. Sources: CDA/Wiesenberg; Lipper Analytical Services; Morningstar; Forbes.

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
Delaware Group Delchester (J)	B	C	17.2%	\$102
Delaware Group Treas Res Intermed	D	A	5.6	74
Delaware Group US Govt	C	B	6.4	106
Hodge & Cox Income Fund*			7.8	32
Dreyfus A Bonds Plus*	A	D	8.2	44
Dreyfus GNMA Fund	C	C	6.3	48
Dreyfus 100% US Treas Intermed*	B	D	7.2	25
Dreyfus 100% US Treasury L-T*	A+	F	7.6	28
Dreyfus Premier GNMA	B	B	6.5	82
Dreyfus Short-Intermediate Govt*	D	A	7.0	17
Dreyfus Strategic Governments Inc*			5.0	44
Eaton Vance Government Oblig	D	B	5.3	122
Eaton Vance High Income Trust (J)	B	C	17.8	110
Eaton Vance Prime Rate Res			6.2	69e
Eaton Vance Short-Term Global (I)			-0.8	100
Eaton Vance Short-Term Treas			3.2	30e
Federated High Yield Trust* (J)	A	C	15.0	38
Fidelity Advisor Limited Term	C	B	7.2	76e
Fidelity Advisor Sh-Intermed Govt	D	A	7.2	70e
Fidelity Capital & Income* (J)	B	B	28.0	40
Fidelity Ginnie Mae*	C	B	6.7	40
Fidelity Global Bond Fund* (I)			4.4	65
Fidelity Government Securities*	B	C	7.9	35
Fidelity Intermediate Bond Fund*	D	B	6.1	32
Fidelity Inv Grade Bond*	B	C	8.3	35
Fidelity Mortgage Securities*	C	B	5.6	40
Fidelity Short-Term Bond*	D	A+	7.4	43
Financial Bond Shs-High Yield (J)	D	A	14.6	53
Financial Bond Shs-Select Inc	D	A	10.4	58
First Australia Prime Income* (I)			-3.3	73
First Boston Income Fund*	D	A	12.2	40
First Investors Fund for Income (J)	D	D	16.7	122
First Investors Government Fund	B	D	5.9	137
First Investors High Yield Fund (J)	C	D	18.9	140
Flag Inv Total Return US Treas			5.1	84
Fort Dearborn Income Securities*	A	D	8.7	41e
Fortis Advantage-Govt Total Ret	D	C	4.8	108
Fortis US Govt Securities Fund	C	C	5.6	81
Franklin Adj US Govt Securities	F	A+	4.0	49
Franklin AGE High Income Fund (J)	C	D	16.5	69
Franklin Global Opportunity Inc (I)			-0.2	65
Franklin Principal Maturity Trust*			8.0	161
Franklin Short-Intermed US Govt	D	B	6.6	51
Franklin Tax-Advantaged US Govt	C	B	7.2	77
Franklin US Government Securities	D	A	7.3	66
Franklin Universal Trust* (J)			20.7	173

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
Fund for US Govt Securities	D	B	5.3%	\$91
Global Government Plus* (I)			-0.3	58
Global Income Plus Fund* (I)			1.8	57
Global Yield Fund* (I)			-1.0	51
GNA Investors-US Govt Secs	C	B	5.8	25
Government Income Securities	D	B	6.1	56
Gradison-McDonald Govt Inc			7.4	68
GT Invest-Global Govt Inc (I)			1.9	115
Hancock Freedom Global Inc (I)			-2.3	113e
Hancock Freedom S-T World (I)			3.4	101e
Hancock Income Securities*	B	B	9.2	41
Hancock Investors Trust*	B	B	9.0	41
Hancock Sovereign Bond	C	B	8.0	117
Hancock Sovereign Freedom Govt	B	D	4.5	78e
Hancock Strategic-Income (J)	D	B	7.5	130
Hancock US Govt Securities	D	B	4.2	121
High Income Advantage Trust* (J)			15.4	50
High Income Advantage Trust II* (J)			16.8	49
Hyperion Total Return Fund*			6.4	109
IAI Bond Fund	A+	D	6.8	55
IAI Reserve Fund	F	A+	3.3	43
IDS Bond Fund	A	C	10.6	86
IDS Extra Income Fund (J)	C	C	19.6	92
IDS Federal Income Fund	D	A	6.4	90
IDS Selective Fund	B	C	9.0	87
IDS Strategy-Income	A	D	9.6	85
InterCapital Income Securities*	D	A	11.0	35
Intermediate Bond Fund of Amer			6.3	93
ISI Total Return US Treasury			4.4	85
Janus Flexible Income Fund*			11.8	50
Kemper Adjustable Rate US Govt	C	C	6.1	55
Kemper Diversified Income Fund (J)	C	B	17.8	106
Kemper High Income Trust* (J)			18.8	111e
Kemper High Yield Fund (J)	A	C	17.0	88
Kemper Inc & Cap Preservation	C	B	7.9	86
Kemper Intermediate Government*			5.4	47e
Kemper Invest-Diversified Income	B	A	16.7	105
Kemper Invest-Government	B	D	4.5	93
Kemper Invest-High Yield (J)	B	C	16.1	95
Kemper Invest-Short-Intermed Govt			5.3	95
Kemper Invest-Short-Term Global (I)			-9.0	92
Kemper Multi-Market Income*			17.2	50e
Kemper Short-Term Global Income (I)			-8.5	85
Kemper US Government Secs	B	C	4.6	77
Keystone America Cap Pres & Inc I			3.4	72
Keystone America Cap Pres & Inc II*			2.3	57

*Fund has no load or shareholder-paid 12b-1 plan. † See page 166 for explanation. e: Estimate. (I): International. (J): Junk.
Sources: CDA/Wiesenberger; Lipper Analytical Services; Morningstar; Forbes.

TAXABLE BOND FUNDS

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
Keystone Custodian B-1	C	D	3.8%	\$100
Keystone Custodian B-2	D	C	9.7	100
Keystone Custodian B-4 (I)	D	D	17.9	109
Legg Mason Inc-US Govt Intermed			6.3	43
Lexington GNMA Income Fund*	A	D	5.2	51
Liberty Financial US Govt Secs	D	C	6.0	88e
Liberty High Income Bond (I)	A	B	17.1	95
Lord Abbett Bond-Debenture (I)	D	A	15.9	80
Lord Abbett Global-Income (I)			5.8	113
Lord Abbett US Govt Secs	A	D	7.1	95
Lutheran Brotherhood High Yield (I)			20.0	108
Lutheran Brotherhood Income	B	C	8.0	89
Mackenzie Fixed Income Trust	A	D	8.1	123
MainStay-Government Plus	C	D	3.8	80
MainStay-High Yield Corp Bond (I)	B	B	21.4	95
MassMutual Corporate Investors*	F	A+	17.6	72e
Merrill Lynch Corp-High Income (I)	C	A	20.7	70
Merrill Lynch Corp-High Quality	B	C	7.5	70
Merrill Lynch Corp-Intermed	C	B	7.3	52
Merrill Lynch Federal Securities	D	B	5.8	80
Merrill Lynch Global Bond Inv & Ret (I)			7.8	84
Merrill Lynch Prime Fund			6.1	68e
Merrill Lynch S-T Global Income (I)			-2.8	80
Merrill Lynch World Income (I)			6.1	83
MetLife-State Street Govt Income	B	D	6.8	53
MetLife-State Street High Income (I)	B	C	20.4	104
MFS Bond Fund	B	B	6.3	93
MFS Charter Income*			7.1	48
MFS Government Income Plus	C	D	6.0	118
MFS Government Markets Income*	C	C	3.3	51
MFS Government Premium Fund			6.0	107
MFS Government Securities	C	C	7.2	110
MFS High Income Fund (I)	C	C	16.9	103
MFS Intermediate Income*			3.2	49
MFS Lifetime Govt Income +	D	D	5.8	88
MFS Lifetime High Income (I)	A	D	15.9	114
MFS Lifetime Intermediate Inc			2.4	111
MFS Multimarket Income Trust*	D	A	5.4	61
MFS Worldwide Governments (I)			1.3	125
Montgomery Street Income Secs*	B	A	9.7	38
National Bond Fund (I)	B	D	25.0	105
National Federal Securities	A	D	8.0	93
National Multi-Sector Fixed Inc			12.1	123
N & B Limited Maturity*	D	A	5.2	33
New America High Income Fund*			29.7	256
Nicholas Income Fund*	D	A+	10.3	33

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
Northeast Investors Trust*	F	A+	17.4%	\$83
Oppenheimer Champion High Yld (I)			16.3	121
Oppenheimer GNMA Fund	D	B	4.5	114
Oppenheimer Govt Securities	B	C	4.4	94
Oppenheimer High Yield Fund (I)	F	A	13.8	94
Oppenheimer Multi-Sector Income*			7.9	55
Oppenheimer Strategic Income			7.5	107
Oppenheimer US Government	D	C	5.0	106
Overland Express Variable Rate Govt			4.2	67
Pacific American Income Shares*	C	B	7.7	42
Pacific Horizon-US Government			7.6	64
Pacifica Asset Preservation Fund			4.8	39
Pacifica Government Income			5.5	85
PaineWebber Global Income (I)			1.2	108e
PaineWebber High Income (I)	A+	C	24.1	88
PaineWebber Income Fund	A	D	10.9	96e
PaineWebber Inv Grade Income	B	C	8.9	91
PaineWebber S-T Global Inc (I)			3.2	87
PaineWebber US Govt Income	B	C	6.2	87
Parkstone Bond			6.2	84
Parkstone Intermediate Govt Oblig			5.3	84
Parkstone Limited Maturity			5.8	72
Permanent Port-Treasury Bill	F	A+	2.9	37
Phoenix High Yield Fund (I)	D	A	17.0	107
Pilgrim Adj US Govt Secs III			7.1	64e
Pilgrim Prime Rate Trust			6.5	72
Pilgrim S-T Multi-Market Income (I)	F	C	-15.0	115
Pioneer Bond Fund	C	B	7.9	100
Piper Jaffray Govt Income	B	D	4.4	102
Piper Jaffray Inst Govt Income			12.3	49
Portico-Bond IMMDEX Fund			7.6	25
Preferred Income*			24.7	85
T Rowe Price GNMA Fund*	C	B	6.5	43
T Rowe Price High Yield Fund* (I)	D	B	14.8	119
T Rowe Price Intl Bond* (I)			2.9	55
T Rowe Price New Income Fund*	C	C	5.0	44
T Rowe Price Short-Term Bond*	D	A	5.0	44
T Rowe Price Spectrum-Income*			7.8	48e
T Rowe Price US Treasury Intermed*			6.3	40
Princor Government Securities Inc	A	D	6.1	95
Prudential GNMA Fund	C	D	6.2	86
Prudential Government Plus	B	D	6.7	88
Prudential Govt Secs-Intermed	D	C	6.0	110
Prudential High Yield Fund (I)	D	C	16.0	86
Prudential Intermed Global Inc (I)			3.5	112
Prudential S-T Global-Inc (I)			-0.3	87

*Fund has no load or shareholder-paid 12b-1 plan. † See page 166 for explanation. e: Estimate. (I): International. (J): Junk.

Sources: CDA/Wiesenberg; Lipper Analytical Services; Morningstar; Forbes.

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
Prudential S-T Global-Assets (I)			1.2%	\$74e
Prudential Structured Maturity			7.0	51
Prudential US Government	A	F	6.3	97e
Putnam Adjustable Rate US Govt			3.9	97
Putnam American Government	C	D	6.0	96e
Putnam Diversified Income Trust			12.2	121
Putnam Federal Income	B	D	6.0	106
Putnam Global Governmental Inc (I)			4.5	122
Putnam High Inc Convert & Bond*			27.3	57
Putnam High Yield Advantage (J)	A	B	18.5	114
Putnam High Yield Trust (J)	C	B	19.5	96
Putnam Income Fund	B	B	9.8	93
Putnam Intermediate Govt Income*			7.0	51e
Putnam Master Income Trust*	B	A	12.3	54e
Putnam Master Intermediate Inc*			12.1	49
Putnam Premier Income Trust*			11.8	44
Putnam US Govt Income	D	B	6.6	98
Quest for Value-US Govt Income			6.0	105
QAC Income Fund*			5.0	113
Quamieri Adj Rate US Govt I			-0.1	65
Rudder GNMA Fund*	C	C	7.0	50
Rudder Income Fund*	B	C	6.7	49
Rudder International Bond* (I)			7.6	63
Rudder Short-Term Bond Fund*	D	B	5.4	39
Rudder Short-Term Global Inc* (I)			5.6	50
Shearson Income-Divers Strategy			6.1	81
Shearson Income-High Income (J)	C	C	19.6	83
Shearson Invest-Govt Secs	A	D	5.4	72
Shearson Invest-Inv Grade Bond	A+	F	8.5	78
Shearson Managed Governments	C	C	6.1	91
Shearson S-T World Income (I)			-2.2	93
Shearson World Wide Prime Assets (I)			-1.7	90
Sierra-Corporate Income			9.7	95e
Sierra-US Govt Securities			6.4	85e
Smith Barney-S-T US Treasury			5.9	45e
Smith Barney-US Government	A	C	6.8	66
Spartan Ginnie Mae*			6.5	9
Spartan Government Income*			7.1	33
Spartan High Income* (J)			21.4	35
Spartan Limited Maturity Govt*			5.8	31
SteinRoe Income Fund*	C	B	9.1	45
SteinRoe Intermediate Bond*	B	C	7.7	35
Strong Advantage Fund*			8.6	50
Strong Short-Term Bond Fund*	D	A	6.8	25

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
SunAmerica Equity-US Govt Secs	F	A+	5.3%	\$96
SunAmerica Federal Securities	C	C	4.7	95
Templeton Global Govt Income* (I)			-0.6	54
Templeton Global Income Fund* (I)			1.6	41
TNE Bond Income Fund	B	C	7.5	100
TNE Government Securities	A	F	6.8	106
TNE Premium Income			5.6	89
Thomson-Income	D	C	8.3	98
Thomson-US Government	C	D	3.6	98
Transamerica Govt Securities	A	D	6.1	124
Transamerica Income Shares*	A	B	7.4	34
Transamerica Inv Quality Bond	B	D	6.0	133
Transamerica Spec Govt Income			5.3	100
20th Century Long-Term Bond*	A	D	5.5	49
20th Century US Governments*	D	B	4.4	50
United Bond Fund	B	C	7.5	118
United Government Securities	B	D	7.1	82
United High Income Fund (J)	C	D	16.5	125
United High Income Fund II (J)	D	B	15.5	127
US Government Securities	C	B	7.6	92
USAA Investment-GNMA*			6.1	19
USAA Mutual-Income Fund*	A	C	8.3	22
UST Master Funds-Mngd Income	A	D	5.8	98
Value Line US Government Secs*	C	B	6.3	32
Van Eck World Income Fund (I)			-3.5	117
Van Kampen High Yield (J)	C	C	17.0	120
Van Kampen Intermed High Income*			21.3	95
Van Kampen Ltd High Income*			16.9	95
Van Kampen Prime Rate*			6.1	82e
Van Kampen US Government	B	C	6.3	85
Vanguard Bond Market Fund*	B	C	7.1	10
Vanguard Fixed Inc-GNMA*	B	C	6.8	15
Vanguard Fixed Inc-High Yld* (J)	D	A	14.3	17
Vanguard Fixed Inc-I-T US Treas*			7.8	13
Vanguard Fixed Inc-Invest Grade*	A+	D	9.8	16
Vanguard Fixed Inc-L-T US Treas*	A+	F	7.4	13
Vanguard Fixed Inc-Short-Term*	D	A	7.3	13
Vanguard Fixed Inc-S-T Federal*	D	A	6.2	13
Vanguard Fixed Inc-S-T US Treas*			6.7	13
Vanguard Preferred Stock Fund*	A	C	8.4	28
Warburg, Pincus Intermed Mat Govt*			6.7	30
WPG Government Securities Fund*	C	B	7.9	38
Zenix Income Fund*			19.1	177
Zweig Total Return*			2.7	57

*Fund has no load or shareholder-paid 12b-1 plan. † See page 166 for explanation. e: Estimate.

Sources: CDA/Wiesenberg; Lipper Analytical Services; Morningstar; Forbes.

Municipal bond funds

All municipal bond funds are not alike. Some take on more risk by focusing on high-yield tax-free bonds. Others seek safety by heavily weighting their portfolios with insured securities. Single-state tax-exempt funds help shareholders avoid both federal and state income taxes. But they carry slightly higher risk because their portfolios are tied to the financial health of just one state.

To be listed in this table, a tax-exempt fund must have at

least 12 months of performance and \$100 million in assets. Funds with at least five years of market history are rated. Each of the 72 months from January 1987 through December 1992 is taken as a bull or bear month, according to the performance of the Lehman Brothers municipal bond index. Composite bull- and bear-market performance is calculated for each fund and these returns are then translated into a letter grade, assigned on a curve.

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†	Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
AAL Municipal Bond Fund			8.3%	\$95	Dean Witter Tax-Exempt Secs	A	D	9.1%	\$65
AARP Insured T-F Inc-Genl Bond*	A+	D	8.5	37	Delaware Group Tax-Free USA	B	C	9.7	88
ABT Southern Master-Fla T-F			9.1	68	Delaware Tax-Free Penn	C	B	9.1	84
AIM Municipal Bond Fund	A	F	9.0	95	Dreyfus Calif Tax-Exempt Bond*	D	B	6.6	34
Alliance Muni Income-Calif	C	A	9.4	69	Dreyfus Insured Muni Bond	C	C	7.7	48
Alliance Muni Income-Ins Natl	B	C	9.2	82	Dreyfus Intermediate Muni Bond*	D	A	8.7	35
Alliance Muni Income-Natl	B	B	10.4	84	Dreyfus Massachusetts T-E Bond*	D	B	7.5	42
Alliance Muni Income-New York	C	B	10.7	79	Dreyfus Municipal Bond*	C	B	8.4	34
Allstate Municipal Income*	C	B	8.2	37	Dreyfus Municipal Income*			8.9	43
Allstate Municipal Income II*			8.2	44	Dreyfus NJ Municipal Bond	B	D	8.8	37
Allstate Municipal Inc Oppor*			2.4	54	Dreyfus NY Insured T-E Bond	B	D	8.5	45
Allstate Municipal Inc Oppor II*			3.2	55	Dreyfus NY Tax-Exempt Bond*	D	B	8.9	35
Allstate Municipal Inc Oppor III*			5.9	58	Dreyfus NY T-E Intermed Bond	D	B	9.4	43
Allstate Municipal Premium Inc*			11.5	72	Dreyfus Short-Intermediate T-E	F	A+	6.7	36
American Capital Muni Bond	A	D	8.8	92	Dreyfus Strategic Municipal Bond*			13.3	43
American Capital T-E Hi Yld	D	A+	9.0	101	Dreyfus Strategic Municipals*	D	A	8.0	44
American Municipal Term Trust*			12.6	30	Dupree-Kentucky Tax-Free Inc*	D	A	7.9	36
Benham Calif Tax-Free-Insured*	A	D	9.2	28	Eaton Vance California Munis	D	D	6.1	84
Benham Calif Tax-Free-Intermed*	D	A	7.1	26	Eaton Vance Florida Tax-Free			8.0	84
Benham Calif Tax-Free-L-T*	B	D	8.1	26	Eaton Vance National Munis	C	C	10.0	91
Bernstein Diversified Muni*			6.5	35	Eaton Vance NJ Tax-Free			7.8	84
Bernstein New York Muni*			6.3	35	Eaton Vance NY Tax-Free			9.2	85
California Tax-Free Income*	C	A	8.3	30	Eaton Vance Penn Tax-Free			7.7	85
Calvert Tax-Free Reserves-Limited	F	A+	5.0	56	Federated Intermediate Municipal*	D	B	7.1	24
Churchill T-F Fund of Kentucky	C	B	8.5	54	Fidelity Advisor High Inc Muni	C	A+	11.1	93
Colonial California Tax-Exempt	D	A	7.8	86	Fidelity Calif Tax-Free High Yield*	C	B	8.7	30
Colonial High Income Municipal*			6.5	48	Fidelity Calif Tax-Free Insured*	B	C	9.2	33
Colonial Investment Grade Muni*			6.8	43	Fidelity Mass Tax-Free High Yield*	D	B	9.3	29
Colonial Mass Tax-Exempt	B	C	9.5	71	Fidelity Mich Tax-Free High Yield*	B	B	9.5	31
Colonial Municipal Income Trust*	F	A	6.7	43	Fidelity Minnesota Tax-Free*	C	B	7.6	34
Colonial Tax-Exempt Fund	D	A	8.3	100	Fidelity NY Tax-Free High Yield*	C	B	9.0	31
Colonial Tax-Exempt Insured	C	B	7.5	102	Fidelity NY Tax-Free Insured*	C	C	8.6	31
Columbia Municipal Bond Fund*	C	C	6.4	29	Fidelity Ohio Tax-Free High Yield*	C	D	8.7	32
Composite Tax-Exempt Bond	C	C	9.0	80	Fidelity Tax-Free-Aggressive*	D	A	9.2	33
Dean Witter Calif Tax-Free Income	C	D	7.8	86	Fidelity Tax-Free-High Yield*	C	B	8.4	29
Dean Witter NY Tax-Free Income	C	D	8.7	70	Fidelity Tax-Free-Insured*	B	D	7.9	80

*Fund has no load or shareholder-paid 12b-1 plan. † See page 166 for explanation. e: Estimate.

Sources: CDA/Wiesenberger; Lipper Analytical Services; Morningstar; Forbes.

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
Delity Tax-Free-Ltd Term Munis*	D	A	8.1%	\$34
Delity Tax-Free-Municipal Bond*	B	C	8.9	25
Financial Tax-Free Income Shares	A+	F	8.8	51
First Investors Insured Tax-Exempt	D	B	8.1	126
First Investors NY Insured T-F	C	C	8.8	134
Flagship Tax-Ex-All-American			10.6	70
Flagship Tax-Ex-Conn Double	A	D	8.9	75
Flagship Tax-Ex-Florida Double			8.7	55
Flagship Tax-Ex-Kentucky Triple	A	D	9.3	73
Flagship Tax-Ex-Limited Term	D	A	8.7	49
Flagship Tax-Ex-Michigan Triple	A	D	9.6	83
Flagship Tax-Ex-NC Triple	A	D	8.8	91
Flagship Tax-Ex-Ohio Double	B	C	8.4	90
Flagship Tax-Ex-Tenn Double	A	D	9.1	84
Fortress Municipal Income	D	A	7.9	62
Franklin Alabama Tax-Free Income	C	C	8.6	76
Franklin Arizona Tax-Free Income	B	C	9.8	68
Franklin Calif Insured T-F Income	B	C	8.6	68
Franklin Calif Tax-Free Income	D	A	9.2	65
Franklin Colo Tax-Free Income	B	B	9.8	75
Franklin Conn Tax-Free Income			8.2	76
Franklin Federal Tax-Free Income	C	B	9.5	66
Franklin Florida Tax-Free Income	B	C	8.6	67
Franklin Hi Yld Tax-Free Income	C	A	9.1	67
Franklin Insured Tax-Free Income	B	C	9.2	67
Franklin Mass Insured T-F Income	C	C	8.8	74
Franklin Mich Insured T-F Income	C	C	9.3	70
Franklin Minn Insured T-F Income	C	B	8.4	73
Franklin Missouri Tax Free Income	C	B	8.8	76
Franklin NJ Tax-Free Income			9.0	70
Franklin NY Tax-Free Income	D	A	11.0	66
Franklin NC Tax-Free Income	B	C	9.0	76
Franklin Ohio Insured T-F Income	C	B	8.8	71
Franklin Oregon Tax-Free Income	B	C	8.5	73
Franklin Penn Tax-Free Income	B	B	9.6	70
Franklin PR Tax-Free Income	C	B	8.9	75
Franklin Texas Tax-Free Income			8.4	75
Franklin Virginia Tax-Free Income	B	C	8.8	74
General Calif Municipal Bond			8.0	19
General Municipal Bond	A	C	9.8	1
General NY Municipal Bond	D	B	10.1	28
Hancock Freedom Mngd Tax-Ex	A	D	7.6	71
Hancock Tax-Exempt Income	B	D	8.3	109

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
Hawaiian Tax-Free Trust	D	B	7.9%	\$75
IDS California Tax-Exempt Fund	C	C	8.3	82
IDS High Yield Tax-Exempt Fund	C	B	8.7	81
IDS Insured Tax-Exempt Fund	B	D	9.0	84
IDS Minnesota Tax-Exempt Fund	D	B	8.5	83
IDS Tax-Exempt Bond Fund	B	F	6.8	82
Kemper California Tax-Free Inc	C	D	7.8	77
Kemper Florida Tax-Free Inc			8.7	58
Kemper Municipal Bond Fund	A	D	8.7	70
Kemper Municipal Income Trust*			11.1	36e
Kemper New York Tax-Free Fund	C	D	8.9	78
Kemper Strategic Municipal Inc*			9.3	39e
Keystone America Tax-Free Inc	D	B	8.6	109
Keystone Tax-Exempt Trust	C	D	7.0	91
Keystone Tax-Free Fund	C	C	7.5	59
Liberty Financial Tax-Free Bond	C	B	8.9	73e
Liberty Muni Securities	B	C	8.4	89
Limited Term Municipal-Natl	F	A+	7.7	80
Lord Abbett Calif Tax-Free Inc	B	C	9.0	81
Lord Abbett Tax-Free Inc-Natl	B	C	8.7	85
Lord Abbett Tax-Free Inc-NJ			9.2	48
Lord Abbett Tax-Free Inc-NY	C	B	8.8	86
Lutheran Brotherhood Muni Bond	B	C	8.9	92
MainStay-Tax-Free Bond	D	C	8.3	65
Merrill Lynch Calif Muni Bond	C	C	6.7	72
Merrill Lynch Florida Muni			8.2	62
Merrill Lynch Muni-High Yield	B	C	9.4	68
Merrill Lynch Muni-Insured	B	D	9.0	62
Merrill Lynch Muni-Ltd Maturity	F	A+	5.6	28
Merrill Lynch Municipal Income	D	C	7.9	64
Merrill Lynch NY Muni Bond	C	C	10.4	74
MetLife-State Street Tax-Exempt	B	D	9.3	105
MFS California Municipal Bond	B	C	8.6	68
MFS High Yield Muni Bond	D	A	8.0	99
MFS Lifetime Municipal Bond	D	B	7.9	101
MFS M-S Muni Bond-Maryland	C	C	6.7	106
MFS M-S Muni Bond-Mass	D	B	7.9	101
MFS M-S Muni Bond-New York			9.4	80
MFS M-S Muni Bond-N Carolina	D	C	6.5	102
MFS M-S Muni Bond-S Carolina	C	D	7.1	105
MFS M-S Muni Bond-Virginia	D	B	6.9	102
MFS Municipal Bond	A	D	9.3	77
MFS Municipal Income Trust*	F	A+	7.7	64

*Fund has no load or shareholder-paid 12b-1 plan. † See page 166 for explanation. e: Estimate.

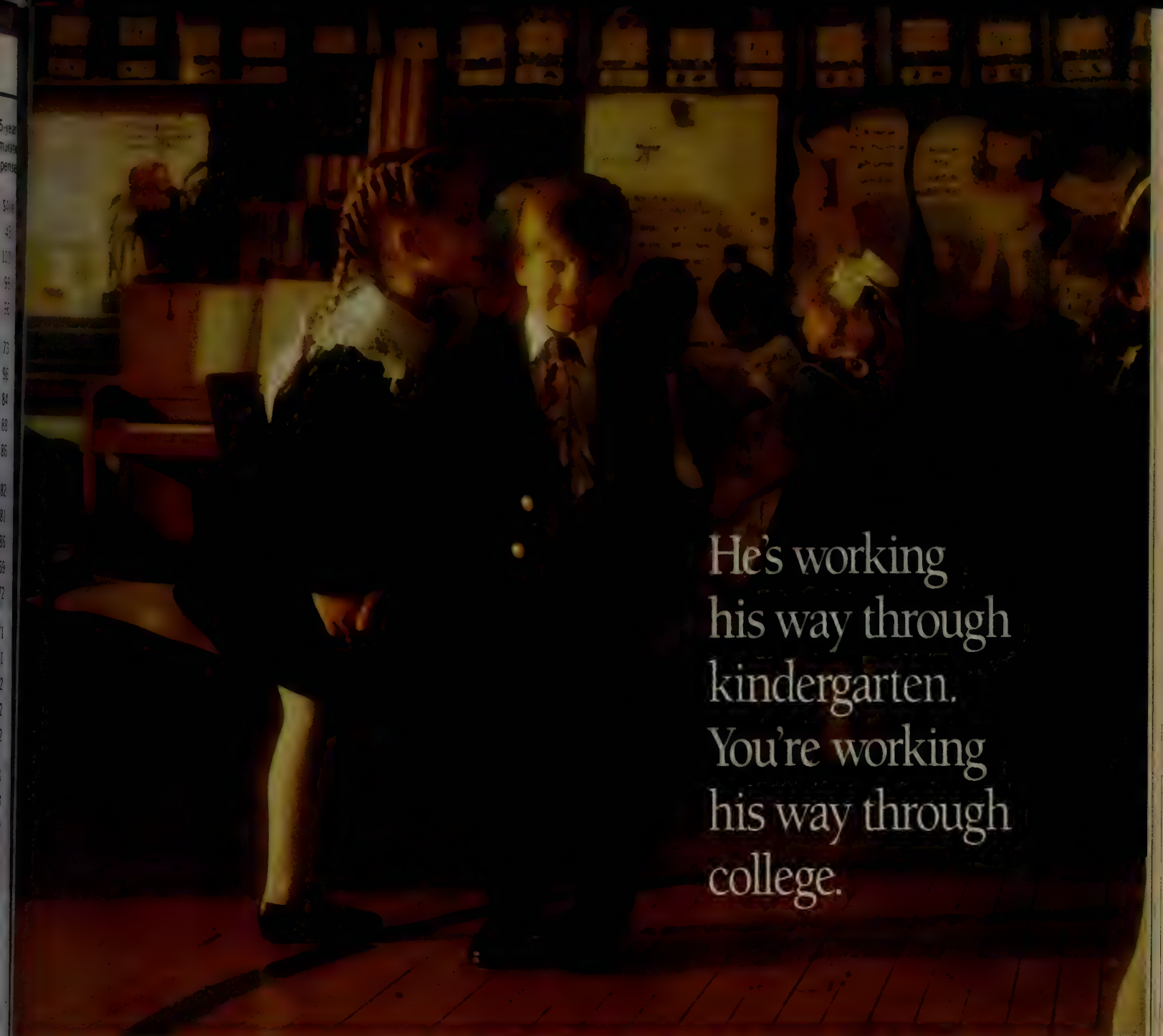
Sources: CDA/Wiesenberger; Lipper Analytical Services; Morningstar; Forbes.

MUNICIPAL BOND FUNDS

Fund	Performance in		12-month total return	5-year cumulative expense†	Fund	Performance in		12-month total return	5-year cumulative expense†
	UP	DOWN				UP	DOWN		
—markets—					—markets—				
Municipal High Income Fund*			8.8%	\$44	Nuveen Select Quality Municipal*			10.5%	\$40e
MuniEnhanced Fund*			12.4	35	Nuveen Texas Quality Inc Muni*			10.1	43
MuniVest Fund*			10.7	33	Oppenheimer Calif Tax-Exempt			7.7	100
Mutual of Omaha Tax-Free Inc	A	D	8.7	91	Oppenheimer New York Tax-Exempt	D	B	9.0	95
National Calif Tax-Exempt Bonds	D	B	6.9	82	Oppenheimer Tax-Free Bond	C	C	9.7	96
National Securities T-E Bonds	B	C	8.4	84	Overland Express Calif T-F Bond			9.1	73
Nationwide Tax-Free Income	B	D	9.4	49	Pacific Horizon-Calif T-E Bond	D	C	8.6	96
New York Muni Fund	A	F	11.9	86	Pacifica Calif Tax-Free			8.2	84
Nuveen Calif Insured T-F Value	A	D	9.3	80	PaineWebber Calif T-F Income	C	B	7.5	88
Nuveen Calif Invest Quality Muni*			11.4	38	PaineWebber Natl T-F Income	B	D	7.7	86
Nuveen Calif Muni Market Oppor*			10.9	40	Parkstone Michigan Muni Bond			7.0	82
Nuveen Calif Muni Value*	D	A	7.9	40	Parkstone Municipal Bond			7.4	81
Nuveen Calif Perform Plus Muni*			11.7	40	Piper Jaffray Minnesota Tax-Exempt			8.1	88
Nuveen Calif Quality Inc Muni*			9.1	38	Premier Calif Muni Bond	B	B	8.3	89
Nuveen Calif Select Quality Muni*			11.0	40	Premier Municipal Bond	A	B	10.0	72
Nuveen Calif T-F Value	C	B	9.2	81	Premier State Muni-Conn	B	C	8.7	71
Nuveen Florida Invest Quality Muni*			10.7	39	Premier State Muni-Fla	A	C	9.0	71
Nuveen Insured Muni Bond	A	D	9.6	84	Premier State Muni-Md	B	C	8.3	72
Nuveen Insured Muni Opportunity*			11.1	37	Premier State Muni-Mich	A	D	9.3	72
Nuveen Insured Quality Municipal*			11.6	38	Premier State Muni-Minn	B	B	8.4	72
Nuveen Invest Quality Muni*			11.0	37e	Premier State Muni-Ohio	B	B	9.4	71
Nuveen Michigan Quality Inc Muni*			11.2	41	Premier State Muni-Penn	A	B	9.8	73
Nuveen Municipal Advantage Fund*			9.0	37	T Rowe Price Calif T-F Income Bond*	C	C	8.9	30
Nuveen Municipal Bond Fund	D	B	8.5	79	T Rowe Price Maryland T-F Bond*	C	D	8.5	32
Nuveen Municipal Market Oppor*			11.1	37	T Rowe Price Tax-Free High Yield*	D	A	9.6	42
Nuveen Municipal Value Fund*	B	B	9.1	40	T Rowe Price Tax-Free Income*	C	D	9.4	31
Nuveen NJ Invest Quality Muni*			10.1	38	T Rowe Price T-F Short Intermed*	F	A	6.0	34
Nuveen NJ Quality Inc Muni*			10.1	44	Prudential Calif Muni-Calif	C	C	8.8	50
Nuveen NY Insured T-F Value	B	C	9.7	82	Prudential Calif Muni-Income			10.1	50
Nuveen NY Invest Quality Muni*			12.7	40	Prudential Muni Bond-High Yield			8.8	44e
Nuveen NY Muni Market Oppor*			12.7	42	Prudential Muni Bond-Insured			8.4	89e
Nuveen NY Muni Value*	C	B	9.3	42	Prudential Muni Ser-New Jersey			9.0	67e
Nuveen NY Performance Plus Muni*			12.6	41	Prudential Muni Ser-New York	C	C	9.9	82e
Nuveen NY Quality Inc Muni*			10.5	40	Prudential Muni Ser-Ohio	B	D	9.0	85e
Nuveen NY Select Quality Muni*			12.6	42	Prudential Muni Ser-Penn	A	D	9.6	85e
Nuveen Ohio T-F Value	A	D	9.4	83	Prudential Natl Municipals	B	D	8.9	90e
Nuveen Penn Invest Quality Muni*			11.9	39	Putnam Calif Tax-Exempt Income	B	C	8.5	76
Nuveen Penn Quality Inc Muni*			11.2	44	Putnam Florida Tax-Exempt Income			9.6	78
Nuveen Performance Plus Muni*			10.6	37	Putnam High Yield Municipal Trust*			12.7	57
Nuveen Premier Insured Muni Inc*			10.1	37	Putnam Investment Grade Muni*			14.0	73e
Nuveen Premier Muni Inc*			10.1	38	Putnam Managed Muni Income*			13.3	67e
Nuveen Premium Income Muni*			10.0	33	Putnam Mass Tax-Exempt Inc II			10.7	92
Nuveen Quality Income Municipal*			11.7	39e	Putnam Muni Income			11.3	93

*Fund has no load or shareholder-paid 12b-1 plan. † See page 166 for explanation. e: Estimate.

Sources: CDA/Wiesenberg; Lipper Analytical Services; Morningstar; Forbes.



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Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
Putnam New Jersey Tax-Exempt Inc			8.7%	\$85
Putnam New York Tax-Exempt Inc	A	D	10.4	79
Putnam Ohio Tax-Exempt Income II	C	C	8.9	93
Putnam Penn Tax-Exempt Income			9.6	74
Putnam Tax-Exempt Income	A+	F	10.5	81
Putnam Tax-Free Income—Hi Yld	D	A	10.6	73
Putnam Tax-Free Income—Insured	B	D	7.1	90
Rochester Fund Municipals	D	A+	11.2	80
Safeco Municipal Bond Fund*	A+	D	8.7	27
Scudder Calif Tax-Free Fund*	A	C	9.4	41
Scudder High Yield Tax-Free*	A	C	10.9	51
Scudder Managed Muni Bonds*	A	D	9.0	32
Scudder Massachusetts Tax-Free*	A+	F	10.8	24
Scudder NY Tax-Free*	B	D	10.2	44
Seligman Select Municipal*			11.8	45
Seligman Tax-Exempt—Mass	B	D	9.2	86
Seligman Tax-Exempt—Michigan	A	D	9.3	86
Seligman Tax-Exempt—Minnesota	C	D	7.7	87
Seligman Tax-Exempt—National	A+	F	7.9	86
Seligman Tax-Exempt—Ohio	B	D	8.4	86
Shearson Calif Municipals	B	C	8.0	83
Shearson Income—Tax-Exempt Inc	D	B	8.9	73
Shearson Managed Municipals	A	D	9.3	80
Shearson NJ Municipals			9.4	84
Shearson NY Municipals	D	A	9.3	82
Sierra-Calif Muni Income			9.2	88e
Sierra-Natl Muni Income			10.1	82e
Sit New Beginning T-F Income*			7.7	40
Smith Barney Muni Bond—Calif	B	C	8.6	51
Smith Barney Muni Bond—Ltd Term			8.1	45e
Smith Barney Muni Bond—Natl	A	C	9.3	80
Spartan California Muni High Yield*			8.8	18
Spartan Conn Muni High Yield*			8.2	27
Spartan Municipal Income*			8.4	18
Spartan New Jersey Muni High Yield*			8.7	25
Spartan New York Muni High Yield*			9.4	19
Spartan Penn Muni High Yield*	A	C	9.1	28
Spartan Short-Intermed Muni*	F	A+	6.2	28
SteinRoe High Yield Municipals*	D	A	5.4	35
SteinRoe Intermediate Munis*	D	B	7.6	40
SteinRoe Managed Municipals*	B	C	8.3	32
Strong Municipal Bond Fund*	D	B	12.4	5

Fund	Performance in UP DOWN —markets—		12-month total return	5-year cumulative expense†
SunAmerica Tax-Ex—Insured	D	A	6.6%	\$110
Taurus MuniNewYork Holdings*			11.8	42
Tax-Ex Bond Fund of America	C	D	9.3	83
Tax-Ex Fund of California	C	D	8.5	85
Tax-Free Fund of Colorado	D	A	9.0	62
Tax-Free Trust of Arizona	C	B	9.5	69
Tax-Free Trust of Oregon	D	D	7.7	76
TNE Tax-Exempt Income	B	D	8.3	93
Transamerica Calif Tax-Free Inc			9.1	68
United Municipal Bond Fund	A+	F	9.5	72
United Municipal High Income	D	A	10.1	80
USAA Tax-Exempt—Calif Bond*			8.3	24
USAA Tax-Exempt—Intermediate*	D	A	8.5	22
USAA Tax-Exempt—Long-Term*	B	C	8.6	20
USAA Tax-Exempt—Short-Term*	F	A+	5.9	24
USAA Tax-Exempt—Virginia*			8.5	25
UST Master Tax-Exempt—Intermed	D	B	8.4	77
Value Line Tax-Exempt—Hi Yld*	D	B	7.8	29
Van Kampen Calif Quality Muni*			11.1	78
Van Kampen Florida Quality Muni*			12.9	80
Van Kampen Insured Tax-Free	B	C	9.5	90
Van Kampen Muni Income Trust*			14.0	68
Van Kampen Muni Income			9.7	91
Van Kampen Muni Trust*			13.2	75
Van Kampen Penn Quality Muni*			15.2	79
Van Kampen Penn Tax-Free Inc	B	B	10.1	84
Van Kampen Tax-Free High Inc			0.1	100
Vanguard California T-F—Ins L-T*	A+	F	9.3	13
Vanguard Muni Bond—High Yield*	A+	D	9.9	12
Vanguard Muni Bond—Ins L-T*	A+	F	9.2	12
Vanguard Muni Bond—Intermed*	C	C	8.9	12
Vanguard Muni Bond—Ltd Term*	D	A	6.4	12
Vanguard Muni Bond—L-T*	A+	F	9.3	12
Vanguard Muni Bond—S-T*	F	A+	4.7	12
Vanguard NJ Tax-Free—Ins L-T*			9.4	13
Vanguard New York Insured T-F*	A	D	9.7	13
Vanguard Penn Tax-Free—Ins L-T*	A	D	10.1	13
Venture Muni (+) Plus	D	A	8.4	120
Voyageur Colorado Tax-Free	C	A	10.4	80
Voyageur Minnesota Insured	D	A	10.3	67
Voyageur Minnesota Tax-Free	D	A	8.0	89

*Fund has no load or shareholder-paid 12b-1 plan. † See page 166 for explanation. e: Estimate.

Sources: CDA/Wiesenberger; Lipper Analytical Services; Morningstar; Forbes.

Forbes

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1

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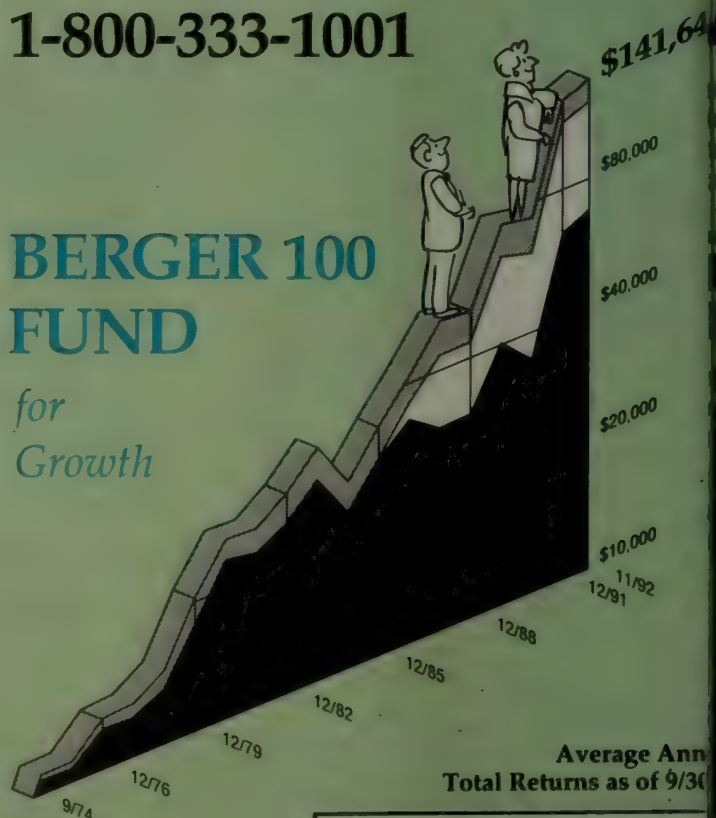
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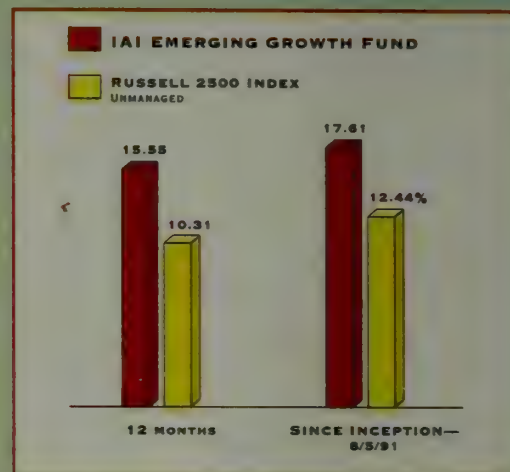
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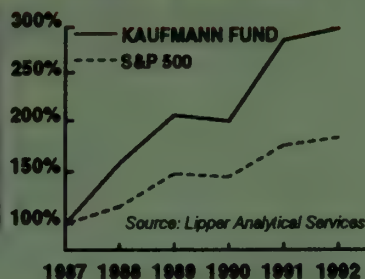
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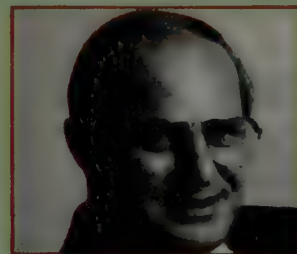
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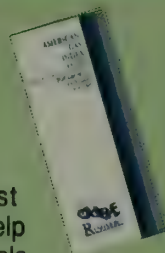
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The World Economic Forum thanks Nicolas Hayek, Chairman of the Omega Watch Company and Donald Keough, President and COO of the Coca-Cola Company, for their invaluable support and involvement. Should you wish to learn more about this on-going initiative or about our other activities, we invite you to contact us:

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The Korean stock market looks tempting to foreign investors. But the Korean government wants to make sure they don't get any bargains.

A half-open door

By Damon Darlin

U.S. AND OTHER foreign money is pouring into the Korean stock market. Of last year's total \$2 billion, the majority came in during the final three months. In the first seven days of January, \$146 million arrived, 27% more than a year earlier. It has been attracted by a booming stock market. The Korea Stock Exchange Index, under 500 in August, was recently at 707, up more than 50%.

The Korean government finally opened the country's stock market to direct investment from abroad in January 1992, but complicated registration rules and limits on stock purchases, combined with Korea's political problems, dampened interest. Other Asian economies, notably Thailand and Hong Kong, looked stronger.

Then, late last year, the Korean market took off on clear signs of falling interest rates and stronger exports. The market got another push after the Dec. 18 election of Kim Young Sam as president, promising political stability.

Korea's gross national product is expected to grow about 5.5% this year, slow by Korean standards but among the world's better performers. James Capel Inc. expects Korea's stock market to be one of Asia's best performers this year.

"Last year Hong Kong was hot because everyone was thinking of China. But people now are realizing that Korea may be a better China play," says Robert K. Kim, the manager of the Korean Investment Fund at Alliance Capital Management

Corp. "Korea is investing now and selling their goods there, but doesn't have the political risk that Hong Kong carries." Kim has put almost a third of the fund's money into construction and steel stocks partly to catch that anticipated boom.

Unfortunately, foreigners wishing to invest in Korea face a deck stacked against them by the Korean government. In almost all companies, foreign investors can own no more than 10% of a company's shares. Quality stocks, such as Pohang Iron & Steel and Hyundai Motor Service, have long since hit their foreign ownership ceilings. Once the ceiling is hit, a foreigner can buy stock only from another foreigner. The result is a two-tier market: one price for Koreans, another for foreigners.

Premium plays

Fund	Exchange	Market cap (\$mil)	Recent price	Net asset value	Premium/discount	—Premium/discount*— high low	
Korea Fund	NYSE	\$275	15	\$11.14	34.7%	120%	-87%
Korean Investment Fund	NYSE	40	11½	10.52	9.3	27	1.0
Daehan Asia Trust	Hong Kong	91	8¾	9.74	-8.9	1	-28
Daehan Korea Trust	London	31	6¾	7.72	-17.1	22	-39
Korea 1990 Trust	Hong Kong	23	3¾	3.78	-16.7	19	-33
Korea Asia Fund	Hong Kong, London	111	11¾	12.04	-2.4	530	-27
Korea Equity Trust	Hong Kong	24	6¼	7.69	-18.7	23	-61
Korea Europe Fund	London	113	5½	5.25	4.8	47	-36
Korea Growth Trust	Hong Kong	38	29¾	29.50	0.9	22	-37
Korea International Trust	unlisted	100	39	38.73	0.7	45	-17
Korea Liberty Fund	London	36	5¾	6.19	-7.1	31	-36
Korea Pacific Trust	Amsterdam	71	8½	-6.4	9.1	12	-34
Korea Trust	London	109	49	48.92	0.2	441	-50
Seoul Asia Index Trust	Singapore	51	8¾	9.15	-8.5	302	0
Seoul International Trust	unlisted	98	39	37.83	3.1	80	-20
Seoul Trust	unlisted	116	29	28.53	1.7	66	-35

*Since Dec. 31, 1989.

Source: Robert Fleming Inc.

Premiums can be high on popular publicly traded Korea funds, but those trading at discounts aren't necessarily bargains—just a little harder to get in and out of because they are less liquid.

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Sprawling Seoul

GNP is expected to grow about 5.5% this year, slow by Korean standards.

Take Korea Mobile Telecommunications, the country's cellular phone monopoly. For Koreans it trades at 120,100 won (\$152) a share, only about 10 times 1993 earnings, while the average Korean price/earnings ratio is 13. But, for foreigners buying from other foreigners, the price is 210,175 won, a 75% premium.

Where there's a will, there's a way.

With permission from the Korean government, Harry Seggerman, a Fairfield, Conn. money fund adviser who once ran the Japan Fund, established the Daehan International Investment Trust. Ostensibly managed by a Korean group, Daehan Investment Trust Co., an investors' council led by Seggerman has ultimate control over the portfolio. Seggerman



Fund adviser Harry Seggerman

His Daehan fund made it easier for foreigners to buy Korean stocks.

raised \$30 million from such names as the General Electric pension fund, Rockefeller & Co., Fayed Sarofim and TV personality George Jerry Goodman ("Adam Smith").

About a dozen similar funds have attracted another \$500 million. Although Seggerman originated the concept, Jardine Fleming, the Hong Kong-based securities firm, beat Seggerman to market with an offering of Seoul Horizon Trust in May 1992 for \$50 million raised from clients in the U.S. and Britain. Other such funds followed: Korea Rising Trust, Korea Oriental Trust and Korea Angle American International Trust.

"They are a way for foreigners to bypass restrictions," says Philip Smiley, branch manager of Jardine Fleming Securities in Seoul. For the usually xenophobic Ministry of Finance, the onshore trusts provided a much needed infusion of money into a the sagging stock market.

Short of participating in one of these pools, can an investor buy a piece of Korea without paying a huge premium? Not easily. To invest in individual stocks, one needs a special identification card issued by the Korean Securities Supervisory Board. For most investors, therefore, the best way into Korea remains the Korea Fund and the newer Korean Investment Fund; both are closed-end country funds listed on the New York Stock Exchange. But they face the same foreign-ownership limits on their trades. A further disadvantage is that these funds trade at substantial premiums above the net asset value—in the case of the Korea Fund, as much as 35%.

There are also about 15 offshore funds trading in Hong Kong, London or smaller markets (see table, p. 188). Most of them trade at discounts—and for good reason. They are difficult to get in and out of because they are relatively shallow pools of capital with small numbers of thinly traded shares outstanding.

Investors expect Finance Ministry bureaucrats to make things easier for would-be foreign investors later this year by raising the foreign ownership ceilings to 15% from 10%. Before then, of course, Korean speculators will have pushed up prices of the stocks foreigners most covet.

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NEVER BREAKS DOWN.

Michael Smith is one oilman who hopes oil prices stay down.

Scavenger

By William P. Barrett

THE PAST COUPLE YEARS have not been happy ones in the oil business, but they have been sweet years indeed for Michael Smith, who heads Denver-based Basin Exploration Inc. (expected 1992 revenues, \$21 million). Smith, 37, has developed a specialty of finding oil and gas in nooks and crannies across the Rocky Mountains. He's so good at it that his 58% holding of publicly owned Basin, traded over the counter, has a market value of about \$50 million.

The Rockies have suddenly become a hot region for smaller oil companies with little overhead and lots of hustle. Major operators such as Texaco, Ex-

xon and Amoco today prefer to seek monster new fields rather than fuss with the little stuff. For this reason the big fellows are deploying their exploration and development bucks overseas. They are unloading at attractive prices relatively tiny domestic properties, some barely touched in years.

Despite the company's name, the hulking, curly-haired Smith is more into development than exploration. "We don't take much exploration risk," he says. His company specializes in recompleting existing wells, which might involve seeking a different geological zone in the same well. A new well can cost \$200,000; a

recompleted one, just \$65,000. And the job often can be done in less than a week.

Says Smith, "We do low-risk stuff. This approach eschews the chances of a big killing but provides steady and dependable returns. Smith looks for deals where he can get his money back within five years—and an annual internal rate of return of 30% or more."

Michael Smith is a transplant from the east. Reared on Long Island, Smith went west nearly 20 years ago to attend Colorado State University in Fort Collins, 60 miles north of Denver. He studied chemistry but left in 1978 just shy of graduation—to work in Vail, he says. He then took a real estate license in Fort Collins and quickly moved into land development and speculation. He eventually hooked up with oil types—and developed a bad case of black gold fever. With two real estate acquaintances, Les Kaplan and Frank Camera, Smith founded Basin in 1981, using \$60,000 of their own money, and drilled several wells—successfully. "This seemed pretty easy," Smith says.



Basin Exploration Chairman Michael Smith

"We do low-risk stuff."

wasn't. Camera quit in 1982, leaving Smith and Kaplan. Despite initial success and funding from several drilling limited partnerships—always successful—Basin stagnated for several years, losing money in 1987. In September 1988 Smith agreed to pay Kaplan, who today doesn't talk about Smith, an estimated \$500,000. That stake would now be worth about \$25 million.

On his own, Smith had to scramble for financing. He tapped his oil services suppliers and such sources as a copiers & Lybrand partners deferral plan. He also took out 11 separate leases and mortgages and used money earmarked for property taxes. He moved the company from Fort Collins to Denver in 1989.

A very tough negotiator, Smith proved pretty good at promoting himself and raising money, and from 1988 on was able to spend \$30 million to buy energy properties that he now values at more than double that. The company, with over 1,300 operating wells, has probably become one of the largest independent operators in Colorado.

Smith's capital woes eased considerably when Donaldson, Lufkin & Jenrette raised about \$25 million from selling the public 42% of the company last spring to pay down debt. Until then Smith was personally guaranteeing something like \$24 million. "I sleep better now," he grins. "I will sleep even better when, as he hopes, Basin taps the equity markets again in the near future."

Basin is expected to report earnings of \$3.4 million, or 55 cents a share, for 1992. Some analysts expect per-share earnings to more than double this year. In another sign of Smith's growing prominence, his board now includes veteran oil investor Michael A. Nicolais, who just retired after 40 years of helping to manage the Forbes Four Hundred fortune of the Clark family of Cooperstown, N.Y. (FORBES, Sept. 18, 1989).

While most oilmen pray for better prices, the cocky Smith is hoping that oil prices will stay put for the next year or two. This is partly because he has hedged some of this year's production. More important, he wants to continue acquiring properties. Cheaply.

Kidnappers, carjackers and urban guerrillas have created a nice little business for Cincinnati's O'Gara brothers.

Opportunities in terrorism

By Jerry Flint

BILL O'GARA was reminiscing a bit: "The business grew after Kennedy was assassinated. By the late 1970s, terrorism in vehicles was a threat—remember when the Turkish ambassador was shot to death in L.A.?" The PLO and Mossad were at war back

then, he continues. There were the Red Brigades, the Baader-Meinhof gang, Qaddafi, Carlos and the IRA, all the great names in terrorism.

But one man's terrorist is another man's business opportunity, and 35-year-old Bill O'Gara and his brother



O'Gara-Hess
& Eisenhardt
President
Bill O'Gara

"Regional complications are better for us than a major war."

Thomas, 42, are exploiting the opportunities in terrorism beautifully.

The O'Gara brothers own O'Gara-Hess & Eisenhardt, specialists in the armor-plating of cars. The company is run out of a plant in Fairfield, Ohio, 10 miles north of Cincinnati. Revenues come to a nice, steady \$20 million a year, pretax profits to between \$1 million and \$2 million. Bill O'Gara is in charge of production. Brother Tom heads up marketing.

Aren't East Germany's Stasi and the KGB out of the international terrorism business? Yes, but there is no end of newcomers to replace them. Just read the headlines: gunmen stopping cars in Somalia, the deputy prime minister of Bosnia assassinated riding from Sarajevo's airport, the Exxon executive kidnapped from his car and murdered in New Jersey, attacks on whites in South Africa, kidnapping in Brazil, snipers in Florida, the drug lords' car bombs in Latin America, carjacking in lots of American cities.

"Look at Turkey now," says Bill O'Gara. "There's a terrific level of internal violence there. People get shot in their cars. Keep your eyes on Turkey." He thinks recent developments in Thailand and the Philippines will be good for his business, too.

"Regional complications are better for us than a major war," he adds. "In a major war, the tanks and submarines and bombers take over, not thick glass."

The O'Garas' window glass runs up to 2½ inches thick, and their car armor comes in three materials—metal, fiber and ceramic. The full-metal armor treatment, able to withstand an armor-piercing shell, weighs about 1,800 pounds and costs upwards of \$100,000 (plus the car). Lighter-weight fiber protection can check a 9mm bullet; this treatment adds about 300 pounds and costs from \$40,000 to \$70,000 and up on an S Class Mercedes (plus the car). There are more expensive light armors, but American law forbids exports of some



Disassembling cars for armoring

It costs up to \$70,000 to stop a 9mm bullet.

of these high-technology materials. Over 90% of the O'Garas' revenues are booked from sales overseas; more than half the brothers' vehicles go to the Middle East.

The company plates between 200 and 250 vehicles a year—Cadillac limousines, Jeep Grand Cherokees, GMC Suburbans for Africa, Chevy vans for U.S. agencies.

Just the thing for dope dealers? "No," O'Gara replies. "We're pretty careful who we deal with. With 90% of our business with governments and 7% corporations, we can't afford to be indiscriminate."

These days the O'Gara brothers are mulling the sharp rise in carjackings, but they're not quite sure how to play the trend.

"We see potential for a PSV [Personal Security Vehicle]," Bill O'Gara says. "But we have problems with expanding into this business. What do you do? Do you put some protection in the left front door? Or all four

doors? What is our liability? We are not equipped to handle a consumer market."

Still, opportunity is knocking and the O'Garas must consider it. The brothers say they are talking with Cadillac executives about the possibility of offering light fiber armor on doors. Target cost of this option: around \$5,000. Tom O'Gara thinks they might get orders for 2,000 vehicles a year—a figure that would increase their revenues by half.

The brothers tried to create a personal security vehicle in 1988. "We were after the smash-and-grab market, brick or a tire iron in the window and some guy grabs your purse," says Tom O'Gara. But the package they came up with then cost \$20,000. No one wanted it at that price, and O'Gara-Hess & Eisenhardt lost money that year.

How does one get into such a business? In 1978 Tom O'Gara was selling Ferrari, Rolls-Royces, Lamborghinis and other exotic cars in Beverly Hills. This led him into converting production-line Cadillac

lacs, Lincolns and Mercedes Benzes into limousines. This was a big business for a few years, and Tom O'Gara brought in brother Bill to help him run it. But soon competition made the conversion business unprofitable. "Anyone could saw a car in half and put in a TV," says Tom.

The limo business collapsed in the mid-1980s. But many of the O'Gara boys' customers were Arabs who wanted secure cars. This led the brothers to buy century-old Hess & Eisenhardt in 1982. Before the O'Garas bought it, Hess & Eisenhardt built hearses.

Still young, the O'Garas think they have barely scratched the surface of demand for their services. "We have no serious long-term debt," says Tom O'Gara. "We'll take sales to \$10 million in the next five years, then blow it out"—meaning he plans to take the company public then.

A dream? Maybe not. "I don't see the trend toward more violence diminishing," says Tom O'Gara. ■

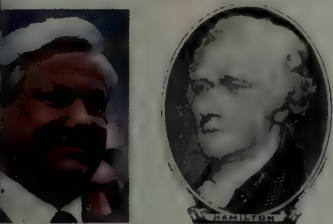
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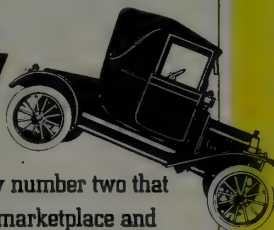
Just some of the subjects covered in our winter issue--all typical of the stimulus you'll get in copy after copy:

A country that has gone through a convulsive period that left it an basket case. Russia 1992? No. America's imaginative steps we took then, some years ago, could save Russia today.



LENIN, MEET ALEXANDER HAMILTON by Jude Wanniski.

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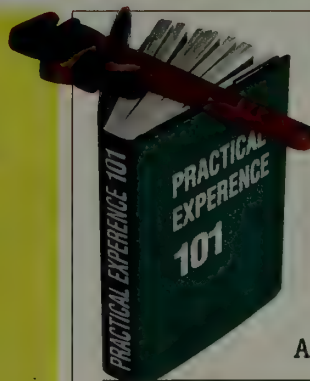
In the 1920s GM was a hungry number two that perceived a changing marketplace and knocked number-one auto builder Ford, and complacent, from its number-one position. It's uncannily similar to the way the Japanese beat the U.S. auto industry in the '70s.

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WHY BUSINESS HISTORY?

An interview with Alfred Chandler.

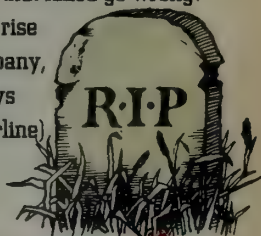


IBM's Thomas Watson has heard praise for his accomplishments all his life. But it was a WW II Air Force general's scrawled "Splendid!" on a report Watson wrote as a young pilot that meant more than the rest combined and galvanized his self-confidence.

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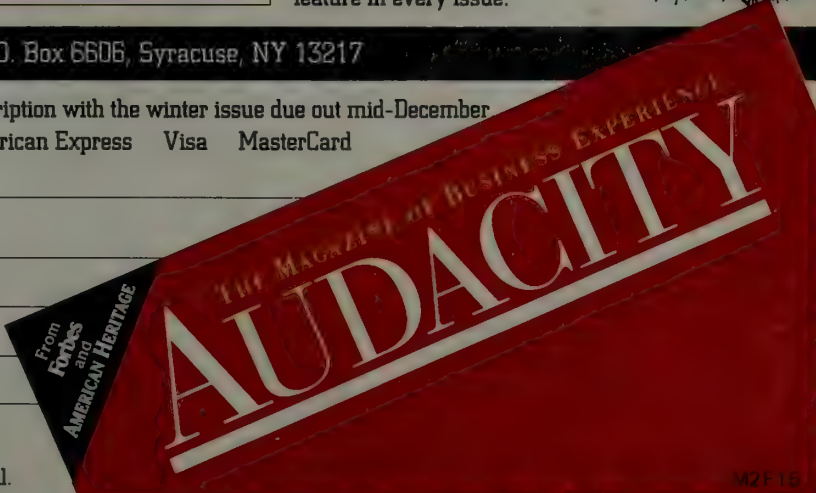
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Christopher Carey won the biggest contract he ever had, and it almost sank him. The lessons learned from that have made him a big winner.

Learning curve

By Reed Abelson

FRESH OUT OF Princeton in 1975 with a degree in architecture, Christopher Carey signed on as a salesman with Datatec, a small Fairfield, N.J. firm that helped retailers wire their stores for computers. Within a year, he had a chance that few 24-year-old hires have: running the whole show.

The little company was losing money, and the owner had decided to bail out. Carey and three other partners—who have since sold out—raised \$50,000 in bank loans and bought the firm's assets, which consisted of some inventory and desks, two trucks and tools. Over the next dozen years, Carey quietly built Datatec Industries into a solidly profitable company with \$13 million in sales, and virtually no debt. Still in his mid-30s, Carey was already a modestly wealthy man.

One day in 1988 Carey landed a really big contract. It almost sank him.

It was a \$5 million job to rewire 1,600 McDonald's restaurants throughout the U.S. for a new computer system. It was the biggest client Carey had landed to date. Which was the problem. His 140-person staff simply wasn't up to it. Work crews were constantly being called back to the restaurants to redo sloppy work. The fast-food giant was unhappy with the quality of Datatec's work. Carey, trying to keep it all together, found himself on one flight after another to McDonald's headquarters in Chicago. "I have to say that was a horrible year and a terrible time in my life," says Carey, who at 40 is prematurely gray. "My God," he recalls thinking, "this isn't my dream come true."

It was a nightmare. Carey realized two painful lessons that many small business owners eventually learn, sometimes too late. He was trying to do too much himself; and entrepreneurial enthusiasm doesn't always translate to efficient management.



Datatec's Christopher Carey
Finally making customers happy.

Carey stopped running Datatec like a one-man show. He started delegating, making sure the employees directly responsible for making the customer happy had the authority to make decisions. No more imposing his views on people down the line. He set up management teams. Customers were asked to evaluate the company's service each quarter, and store managers were asked to grade the crews that installed the equipment. Regular staff meetings were held to review performance and customer feedback.

Carey had learned—and drummed into his associates: Do what the customer wants and don't argue with him; you're serving him, not doing him a favor by being there.

Here's how much Datatec has changed: In October 1991 a Home Depot store manager in New Jersey frantically dialed Datatec's 24-hour help line. His store was mobbed with customers, and half the checkout lines were down. He had notified the man-

ufacturer and the electrical contractor, but neither was much help. Home Depot wasn't a customer of Datatec, but its manager had called out of desperation. Datatec sent a manager who worked through the night. Home Depot is now an \$850,000-a-year customer.

Carey's latest project is something called ShopperTrak, an infrared optics system that determines whether a shopper is entering or leaving the store and whether the person is an adult or child.

The traffic data, combined with actual sales figures, help determine a store's "conversion" rate—how many people passing through the door actually buy. Pier 1 Imports and Kmart are both testing the system—which is far more sophisticated as a marketing analysis tool than older methods of counting bodies. "The accuracy is quite phenomenal," says David Carlson, a senior vice president at Troy, Mich.-based Kmart.

The goal, of course, is to increase the conversion rate. If the conversion rate is too low, the store must be doing something wrong. Perhaps it needs to open additional registers or put more salespeople on the floor at any given time. "If we increase our conversion rate 3%, that translates to a 10% improvement in business," says James Tener, senior vice president for operations at Pier 1 Imports, the Fort Worth, Tex.-based retailer.

What's next? Carey is eyeing the Canadian and U.K. markets for ShopperTrak. Datatec now has about 200 clients and visits some 1,600 stores a month. Last year it earned about \$40 million in revenues, netting roughly \$2 million. Carey still owns it lock, stock and barrel. He concedes he has thought about going public, but right now he's too busy making sure that his customers are happy.



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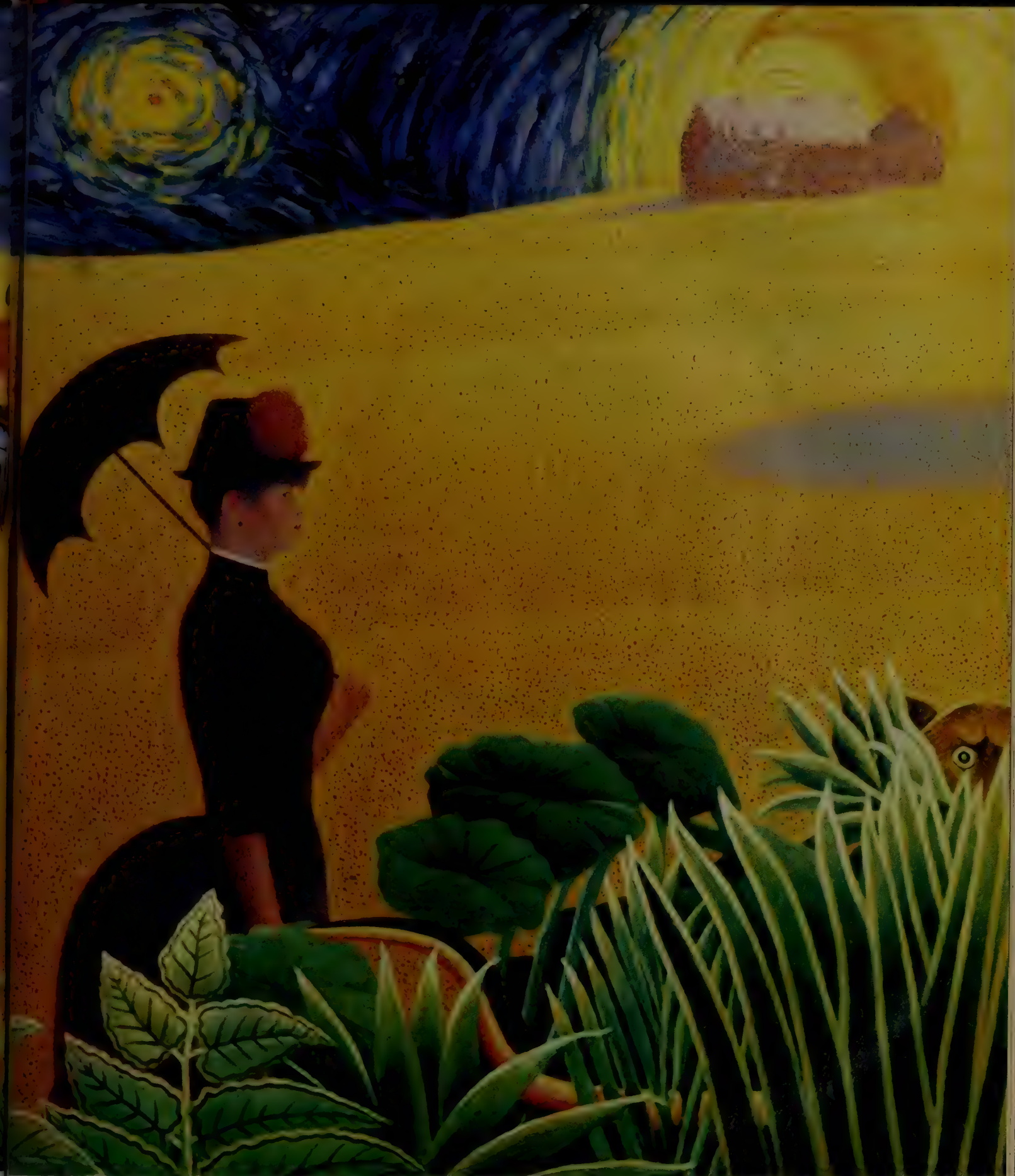
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Forging ahead

By Carol M. Cropper

THIS IS YET another story about a man who goes against the conventional wisdom—and cashes in by doing so.

In the early 1980s, as the chief financial officer at the Farm Credit Bank of Louisville, James Peyton kept telling his bosses the farm credit system was doomed. "They'd lent all this money out on inflationary values without cash flow to support it," he recalls. "They didn't like me telling

them that." Peyton turned out to be right, but by then he was long gone.

The blunt-spoken Jim Peyton and Kentucky's Farm Credit reached in April 1983 what he calls a mutual understanding: "I quit." But what next? Here was a man who began working at age 9 to support his widowed mother and nine siblings and went on to earn an undergraduate business degree from the University

of Arizona. His goal was simple, ambitious. "I wanted to be rich," he says. "But I didn't want to work for anybody else."

Peyton, at 42, decided the best way to get rich was by working with sick businesses. He started researching troubled industries, looking for bargain assets. He focused on forging. Peyton knew nothing about making crankshafts and gears out of raw steel



Louisville Forge owner James Peyton
Building on a dead forge's ashes, he rekindled a flame in American industry that Japanese and German competitors had nearly snuffed out.



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But he knew it was a once proud American industry that had been falling into the hands of more efficient German and Japanese operators. More than 125 American forging companies had failed since 1980. In that, Peyton saw opportunity for a new American supplier. He didn't know what the opportunity would be, but he did know there was "a reason all these people were going broke." Peyton set out to find it and fix it.

As it turned out, troubled International Harvester Co. (now Navistar International) was desperately trying to unload a forge operation right in Louisville. "They were in deep trouble, so you could deal with them," he says.

Peyton bought the plant and equipment—which had attracted an earlier bid of \$35 million—for \$9.2 million in April 1985. "It was a fire sale," he recalls. Peyton mortgaged his home and emptied his savings account to raise \$500,000. He borrowed \$2 million from Louisville's First National Bank. Harvester financed the rest in exchange for a 7% note and gave Peyton a commitment to buy \$5 million worth of crankshafts a year for its trucks.

That was enough to get his Louisville Forge & Gear Works Inc. off the ground, and allow it to be profitable in its first year. Peyton didn't have much trouble attracting good managers. There were lots of them who were disgusted with old-line managements that would resist changes and suggestions. Peyton's first hire was Raymond Puhl, who had been president of Transue & Williams Stamping Co. of Alliance, Ohio, and is now Louisville Forge's executive vice president and chief financial officer.

It didn't take Peyton long to realize that union featherbedding and resistance to change was a big part of why American forges were failing. He brought in 230 nonunion hourly workers, most of whom had never worked in a forge and therefore never picked up the industry's sluggish hab-

its. Peyton held monthly meetings to hear their suggestions and gave experienced employees a share of profits. All employees with a minimum of six months at Louisville Forge & Gear Works become eligible to share 5% of the company's operating profits. Over \$450,000 was paid out in 1992.

Peyton had analyzed the noncompetitiveness of American forges and traced it to three factors: price, quality and delivery time. He spent \$13 million over the past seven years to buy new equipment and to upgrade Har-



Crankshafts from Louisville Forge headed for a nearby Toyota plant

Snatching a big Japanese customer with better price, quality and reliability.

vester's ragtag furnaces; the money came out of cash flow. Among his purchases: a \$100,000 computer system with customized software to cut dies automatically instead of by hand.

Peyton instituted a system of quality spot checks to catch errors before an entire run of parts was lost to the scrap heap. Result: Only 1.34% of Louisville Forge's steel winds up as scrap, compared with an industry average of 2.5% to 3%. That difference saves the forge \$750,000 a year.

Louisville Forge's technicians make repeated visits to customers' factories to get the forge's parts as close as possible to the size they eventually need to be. That means the customer's machine shop has to do less cutting to make the parts fit. The customer saves work, Louisville Forge

saves steel.

Today Peyton's privately held Louisville Forge is the largest U.S.-owned manufacturer of steel crankshafts. Revenues this year should top \$50 million, and Peyton figures to net about \$5 million from that. Among his biggest customers are Rockwell International and Navistar International Transportation Corp. Peyton is negotiating with Ford to make parts for a Mazda engine that will be assembled in Mexico.

In his biggest coup, Peyton three years ago snagged Toyota's nearby Georgetown, Ky. plant in a competition judged on quality, reliability and price. Louisville Forge makes 230,000 crankshafts a year for Toyota, about 30,000 of which go to Japan. Peyton proudly points to a Toyota performance report posted near a batch of parts at the forge. It gives the number of crankshafts shipped through early December: 206,501. Defects: two. Delivery on time: 100%.

None of this means Peyton can relax. The German and the Japanese are circling. In 1991 Krupp Gerlach Crankshaft Co. bought an American forge to establish a beachhead in Illinois. Japan's Sumitomo joined forces with Masco Corp. of Taylor, Mich. to open a forge in Georgetown and is sniffing around the Toyota business. Late last year Krupp snatched away Peyton's biggest customer, Cummins Engine, taking that company's crankshaft business to Brazil.

Meanwhile, Peyton must spend energy, time and money—about \$1.5 million in legal fees so far—fighting the local airport authority, which wants to condemn his forge to add a runway. It's a threat that has his foreign competitors gloating.

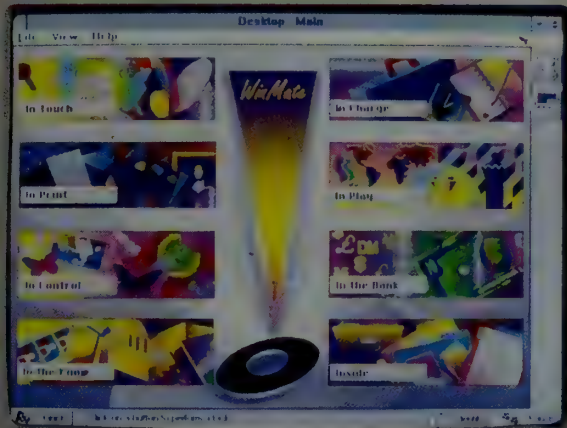
But Peyton isn't fazed. Now that he is finally a wealthy man—Peyton values his 100% stake in the forge at about \$100 million—he simply has another unconventional idea: to go out and buy a steel mill. "I'm a doer," he says. "Risk doesn't bother me."

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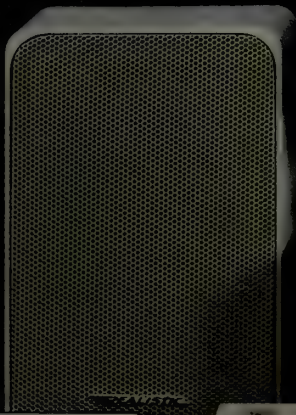
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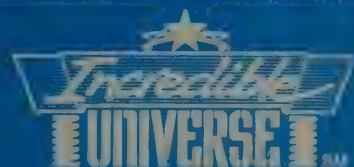
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Internet and some innovative software are changing the nature of the library. Instead of being at the end of the block, a book collection will exist in cyberspace.

Good-bye, Dewey decimals

By David C. Churbuck

WAIS Inc. founder
Brewster Kahle

**Building the
electronic library
of the future.**

IT WOULD BE too much to argue that the jobs of the 152,000 librarians in the U.S. are in jeopardy. But it's fair to say that their jobs will change dramatically over the next two decades, courtesy of the Internet computer networking system and new software that controls Wide Area Information Servers, or WAIS.

Internet, a global network of computers formed by the government to connect universities, research labs and military complexes, was until recently largely limited to nonprofit users. But it is now taking on commercial customers (*FORBES*, July 8, 1991), who are finding the system an extremely economical way to gather and trade information. For as little as \$1 an hour, a subscriber to Internet can sit at a personal computer in his office, issue a request for information, and have the network route his request to libraries across the globe. The system will retrieve in a matter of seconds a collection of card-catalog citations that would have taken a lot of shoe leather to find in person. How else would a scholar in Chicago find out that "chaos" was touched on in a book written in 1741 in Latin and found in Harvard's library? Or what's in the Australian Defence Force Academy library. If he wants the volume, the researcher can follow up with a request for an interlibrary loan.

Full-text retrieval, still very limited at this point, is around the corner. When it comes, the local library as we know it all but disappears. In lieu of librarians we will have programmers and database experts.

One of the fathers of the Wide Area Information Servers concept is Brew-



ster Kahle, who developed programs for searching databases when he worked at Thinking Machines Corp., the Cambridge, Mass. manufacturer of supercomputers. Thinking Machines is primarily interested in developing a market for its hardware, whose parallel processors are ideally suited to massive text searches. Kahle's interest is in the software.

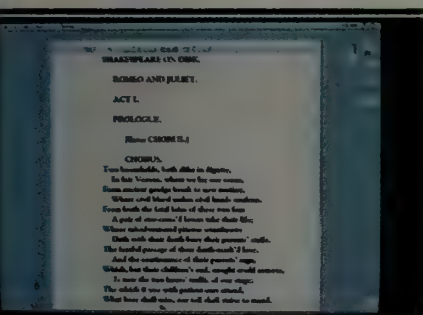
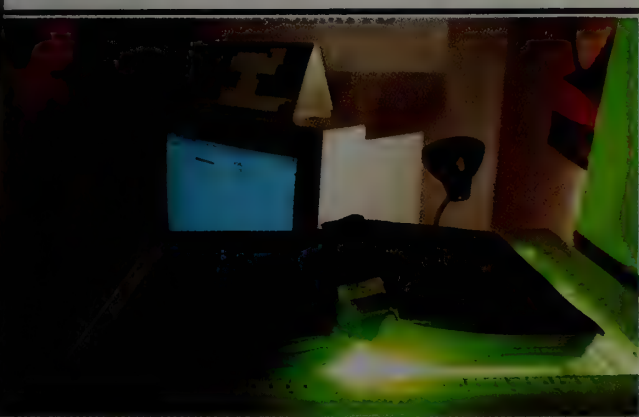
"People want to be able to pose a

question to the net[work] and not care where the answer comes from," says Kahle, 33, who recently left Thinking Machines to form WAIS Inc. in Menlo Park, Calif. Kahle's firm helps corporations and publishers set up electronic versions of copyrighted and public domain material and then make it accessible to users who are willing to pay for each download.

Kahle's software first paws through



Project Gutenberg founder Michael Hart; book scanning
Filling the shelves.



who watches you read through a stack of information, taking notes on what you looked at first and set aside for future reference, and what information you threw away," explains Kahle. You can use WAIS to search a database on your own computer, but the software is optimized to handle the complexities of searches through physically distant databases.

Programmers at the University of Minnesota have taken WAIS a step further. To get information from a WAIS, you have to know exactly where that information is—which server has, say, a collection of song lyrics. The new software, called Gopher, makes it easier to navigate through the network. Richard Wiggins, Gopher coordinator at Michigan State University in East Lansing, Mich., explains the difference between WAIS and Gopher:

"WAIS is for direct searches. Gopher is a browsing tool." Enhancements to Gopher aim at Kahle's ideal—a query about the Beatles is answered with simultaneous searches through all the card catalogs on the network.

More libraries are joining the two-year-old Gopher system all the time, but the best is yet to come, including the 22-million-volume Library of Congress.

As with any new technology, some librarians are finding it hard to adapt. Says Wiggins: "In general terms, this technology is of interest to libraries, but it is frightening at the same time, setting off a struggle between academics who want knowledge spread around and librarians who want to control it."

Wide area information fanatics dream of an interlibrary loan system on a grand scale, in which only one copy of each book or magazine is in the system at all. That one copy could be used by many people at the same time and it would never be lost or overdue. Also, to the consternation of publishers thinking about royalties, it could be easily duplicated.

For this system of the future to become real, existing libraries of printed books will have to be digitized. That's the objective of Project Gutenberg, the creation of Michael Hart, professor of electronic text at Illinois Benedictine College in Lisle, Ill. If Kahle is building the shelves for the electronic library of the future, Hart is filling them. Gutenberg transcribes books, mostly in the public domain, for free digital distribution, whether via floppies or Internet.

For most of the 22 years that Hart has been at work on Gutenberg, digitizing has meant the slow and arduous retyping of the classics. Now, however, all Hart has to do is shred the binding off a book and feed the sheets into a scanner. Gutenberg has 50 titles on-line so far and expects to have 10,000 ready by the year 2001. That's nothing next to what the Library of Congress could crank out if it got serious about digitizing its collection, a project just getting under way. And if the programmers can solve some knotty problems involving pay-per-view and copying, there's no reason that newly published books cannot go on the system, too.

the raw text, indexing it to speed up later searches. Users can then submit plain-English queries. Ask for songs with the words "eyeball" and "toe m," and it will come up with the Beatles' "Come Together." The system learns from trial and error, since the user can tell the computer which of the retrieved documents was closest to what he was looking for.

"WAIS is like a research librarian

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COMMENTARY BY MITCHELL KAPOR



Mitchell Kapor is the founder of Lotus Development Corp. and the president of the Electronic Frontier Foundation. Mitch Ratcliffe, editor-at-large for MacWEEK, provided research assistance for this column.

IT DOESN'T TAKE MUCH to persuade Congress to jack up the penalties for white-collar crime, and last fall's amendments to the Copyright Act were a prime example. With a little prodding from the Software Publishers Association, legislators made a felony of possession of ten unauthorized copies of a program, collectively valued at as little as \$2,500. The new law is a powerful bargaining chip for an industry that has learned to enforce its property rights through intimidation. A little too powerful, I'll wager. Under the new law, just about any computer department manager could be charged as a felon.

There's no doubt that software companies need help enforcing their property rights against brazen counterfeiting schemes, as a recent action brought by Microsoft shows. Its civil suit against Taiwanese defendants alleges that hundreds of thousands of counterfeit copies of the MS-DOS operating system were sold to unsuspecting customers. Armed with seizure orders, attorneys for Microsoft staged elaborate raids on secret warehouses in southern California, carting off truckloads of contraband. Use of the new criminal provisions of the copyright law makes sense in an extreme situation such as this.

But should it be a felony to make ten unauthorized copies of a program? In public speeches on this top-

ic, I routinely ask members of the audience how many of them will stand up to declare they have no unauthorized copies on their hard disks. Only a tiny minority are willing to stand up and be counted as without sin. This suggests to me that, under the new law, any manager with a handful or more of employees could be prosecuted and sent to jail.

Software producers, of course, have to protect themselves against more than the counterfeiters. The software association estimates that its members lose between \$1 billion and \$2 billion a year in revenue from customers who buy fewer copies of business software than they should.

At Lotus, we tried to solve this problem by adopting technical measures to restrict the copying of files. As I learned to my chagrin, this approach had the unacceptable consequence of also restricting legitimate uses by paying customers. Nowadays very few software producers use copy protection devices. They're too likely to be broken by serious hackers and too likely to alienate innocent users. As a simple technical matter, there is no barrier today to anyone walking off with a \$500 product in a shirt pocket, or to a corporate software customer that wants to use more copies than it is willing to pay for.

But the solution to this problem is not a rigid prohibition on copying. Even in the overwhelming majority of honest companies, including many with stringent internal policies, employees routinely make copies of their applications for use on portable and home computers, temporary copies for a co-worker, multiple back-up copies and the like. Unauthorized copies proliferate. Careful lines must be drawn, dividing software duplication into three different grades of behavior: totally innocent copying, unfair use that might give rise to a lawsuit, and criminal piracy. The new antipiracy law fails to make these distinctions.

The software association claims it has no intention to use the criminal

law to enforce essentially civil claims against customers who make and use multiple copies. "I don't need to call the FBI to beat on corporations," says Kenneth Wasch, the association's executive director. "There's absolutely no intention of criminalizing the inadvertent copier in a corporation. We have a very adequate civil remedy." By its own accounting, Wasch's group has done very well in civil court.

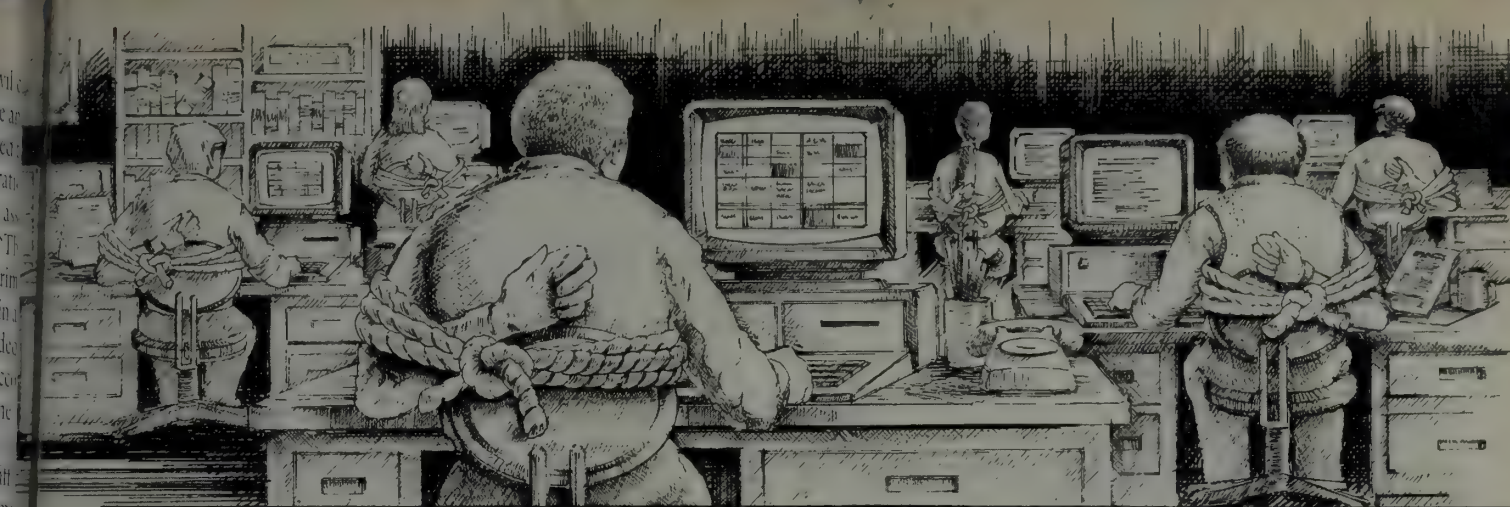
Nonetheless, with these stiff new provisions in place, I can't imagine that sooner or later the felony criminal provisions won't be used, in practice or as threat, against less than obviously flagrant violators. Here's one scenario: The software association will knock politely and ask to review XYZ Corp.'s computers for illegal copies. If XYZ refuses to allow the audit, the enforcers can now do more than file civil action. They can threaten to call in the Department of Justice for criminal investigation.

This law is simply prone to abuse. It won't stop piracy, nor will it contribute to a new ethic that respects the hard work and research dollars put into application software.

Software vendors could take one step in the right direction by rewriting their license agreements to be more realistic. Most licenses don't permit user to install the same copy of product twice under any circumstances, except to make a backup. However, a few companies permit customers to make multiple installations of a single copy of software as long as only one copy is in use at any time.

With more executives using a desktop computer in the office and notebook computer on the road, broadening the terms of acceptable use just represents common sense. It would also go a long way toward easing tensions with customers who find themselves uncomfortable at the prospect of being branded as felons.

We live in a difficult era in which, as Stewart Brand puts it, information wants to be free, yet it also wants to be expensive. Until both vendors and users sincerely acknowledge this paradox, efforts to reduce piracy are likely to do as much to foster conflict and discomfort for legitimate users as they do to benefit software producers. ■



Are your PCs holding you back?

Surprisingly, over 80% of PCs in American industry are operating at a fraction of their capacity. They're doing just one task at a time; requiring users to work in an unnatural fashion.

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large investment of time and money was an oxymoron. For instance, DESQview, our multitasking windowing environment allows users to run several of their favorite

programs side-by-side, saving time and making the process of working more natural and fluid. Microsoft Windows does many of the same things, but it does so by putting an enormous burden on the computer itself. Many users are forced to replace most of their hardware and much of their software just to use it. That's clearly counter-productive. Seriously. How many

times a year would a user need to save to pay back an investment of \$1,500-\$2,200 in new hardware and software?



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Memory limits are another weakness in many PCs. QEMM-386 makes virtually all the computer's memory available to productivity programs while allowing room for network software, TSRs and new utilities like CD-ROM drivers. Microsoft DOS 5 does some of the same things, but less effectively.

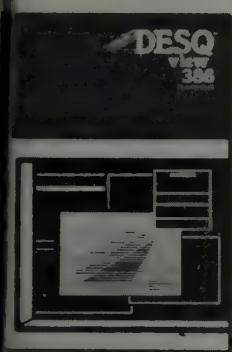
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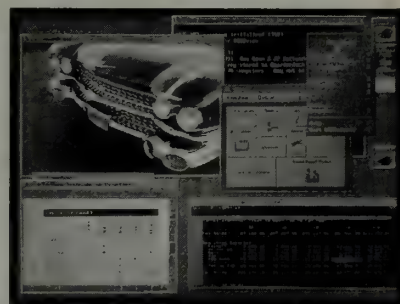
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Microsoft and the trustbusters

COMMENTARY BY PETER HUBER



Peter Huber, a senior fellow of the Manhattan Institute, is the author of *Galileo's Revenge: Junk Science in the Courtroom* (Basic Books).

SO NOW it's Microsoft that supposedly has a stranglehold on the computer industry. Specifically, Microsoft stands accused of including "undocumented" features in its Windows software, for the special advantage of its own, in-house developers of applications like word processors.

The charges are familiar. Some nefarious entrepreneur has sold millions of excellent widgets—so many that a slew of outsiders now provide gizmos to plug into, connect with, sit atop, or otherwise enhance your basic widget. Enter federal trustbusters, to make sure the Widget King doesn't leverage his market power to the disadvantage of gizmo peddlers.

For "widget" and "gizmo," substitute almost anything you like—you'll find it in the antitrust case books. Salt grinders and salt. Cars and dashboard radios. Cameras and film. Phone companies today are said to threaten the public welfare if they build a handset or supply voice mail alongside basic phone service. Microsoft is in trouble because it sells operating systems, like Windows, and also applications, like spreadsheets.

The standard lawyer's response when a company like Microsoft is deemed too successful is to insert a wall of—you guessed it—lawyers between the widgets and gizmos. However they dress it up, the lawyers now

stalking Microsoft will try somehow to segregate "basic" operating systems from fancy applications.

But where exactly should operating systems end and applications begin? If the Microsoft police want apartheid of any kind, they will have to answer that fundamental question. Their objective, after all, is to prevent one kind of software developer from getting too cozy with another.

The experience with line-drawing of this kind in the telephone industry is as dismal as it is instructive. In the 1920s the great enhancement in telephony was the dial telephone, a remarkably high-tech advance over banks of human operators. Today one can buy handsets that dial numbers automatically in response to spoken commands. Similar capabilities will soon be lodged in the network: Callers will once again be able to pick up the phone, speak a name, and be connected. Yet over several decades, the question of whether telephone companies should be permitted to install machines as smart as the human operators of the 1920s has consumed hundreds of millions of lawyer and lobbyist dollars. In the end, machine intelligence will of course come to the network anyway; the only question is how long the matter will be debated, and how rich the debaters will grow in the meanwhile.

Microsoft stands accused of sneaking things into its software that shouldn't be there. Unleash the lawyers, and Microsoft will soon be forced to leave out things that should be. Today, for example, relational database software is called an "application." But everything in a computer probably should be stored in a relational database of some kind, and if so, today's databases will gradually be swallowed into tomorrow's operating systems. In time, the same may well happen to keyboard macros, printer drivers, modem capabilities, com-

pression algorithms, you name it. Technically speaking, Windows itself is a gizmo, not a widget—it runs atop MS-DOS, like other applications. But Windows has been so successful that it has come to seem "basic."

The important point, however, isn't that operating systems must inevitably consume everything else. It's that the very thought of lawyers trying to police software is revolting. When enhancements, peripherals, applications, smarts, what-have-you are really good, they always migrate down the path from gizmo, to widget, to basic necessity. That's not a conspiracy, it's progress.

Microsoft took a huge financial risk with Windows at the outset, and began writing Windows-based applications when lots of outsiders didn't want to waste resources on such an obvious loser. Yet no matter how much software Microsoft writes itself, Windows will thrive only if thousands of independent outsiders continue writing compatible software. That fact provides far more protection against hanky-panky at Microsoft than any array of lawyers will ever deliver. What the feds should do here is stand aside, and let the software market work things out.

If history is any guide, the unfettered market will perform better without federal help than with it. Huge and powerful Microsoft is seen, by the lawyers, to be squashing small and vulnerable IBM (owner of the competing operating system OS/2) and AT&T (creator of the competing Unix). Both OS/2 and Unix might be even more robust today, but for the fact that the energies of their creators were focused elsewhere when Microsoft's DOS slipped into the market around 1980: At that time AT&T was rigidly quarantined from the computer business, because (lawyers said) AT&T was bound to swallow everything if allowed even the tiniest bite. Meanwhile, IBM was defending itself against an unimaginably expensive, paper-clogged antitrust suit, brought against it by the federal government. IBM, you see, had a stranglehold on the computer industry.

And what do we find? Without an antitrust judge in sight, yesterday's indicted strangler now stands cringing on the gallows of the market. ■

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With the proliferation of stocks, bonds and derivatives, many daily newspapers don't have space to quote them all. But there are reasonably priced alternatives.

Dial-a-quote

By Brigid McMnamin

EVERY YEAR there are more stocks, bonds, options, mutual funds and other investments. With newspaper space available for listings tight, where is the investor to turn for quotes? *USA Today* publishes only 1,500 of the most actively traded New York Stock Exchange stocks, out of a total 2,500 issues listed. Last December the *Wall Street Journal* reduced the pages listing options, from two or three every day to one. New York's *Newsday* recently polled its readers to find out which quotes they really want.

Some newspapers are supplementing their tables with telephone quote services, which save newsprint and give publishers another source of income, either through customer fees or advertising. The Minneapolis-St. Paul *Star Tribune*, for example, freed up an editorial page, and saved maybe \$500,000 last year, by trimming 4,000 stocks from its tables. But readers can still get those quotes free by telephone. Every day about 15,000 call. Some 125,000 callers use the *Atlanta Journal-Constitution's* free Stockphone service each week.

Dow Jones & Co., publisher of the *Wall Street Journal*, has four separate services to provide investors with quotes and financial information.



Our table lists 18 services that provide stock quotes and other financial news and data. Some require only a telephone, others a computer. A few operate over FM radio frequencies, for which you need a special radio receiver. One operates over cable TV lines. Some of these services also allow you to fetch and manipulate historical price data, to buy and sell securities and to get prompt confirmations.

Which system is best for you depends on how much information you need and how much you want to pay.

If you do a fair amount of trading,

What if you are not a very active trader, or don't want to commit yourself to one broker? If you have a personal computer, you can get quotes and a wide range of financial information from services like CompuServe, America Online, Dow Jones, GENie and the Prodigy Service. The basic cost for these services is little as \$5 per month—less than you'd pay for most newspapers. But try different services for a while. Many vendors offer low-cost or even free trials. It pays to shop around. No need to pay for more than you use.

Keeping abreast of the market

Even for the small investor, up-to-the-minute stock market quotes are easily and fairly cheaply accessible these days—by phone, computer, radio, TV and cable TV. Below, some of the most popular market data services tailored for individual investors.

Dow Jones & Co.

DowPhone
800-345-NEWS

Services: Real-time quotes on stocks, mutual funds, commodities, options and indexes. Also business and financial news, technical opinions and investment analysis. **Hardware:** Touch-tone phone, with which you punch in stock symbols or names of companies. **Cost:** \$15 to sign up, \$1.25 per minute if you call 800-222-0248, or 95 cents per minute if you call 212-285-8400 or 609-452-0777.

JournalPhone
900-JOURNAL

Services: Stock quotes updated every 15 minutes; mutual fund quotes, market updates and news on 250 selected companies. **Hardware:** Touch-tone phone. **Cost:** 95 cents per minute.

D Jones News/Retrieval 800-522-3567	<i>Services:</i> 15-minute delay on stock quotes, articles from periodicals; newswire reports, industry and company information, statistics and commentary. <i>Hardware:</i> IBM or IBM-compatible or Mac computer, plus modem. <i>Cost:</i> \$29.95 startup, which includes 3 free hours of use; \$18 per year. Thereafter you pay per minute and per information unit. To get real-time stock quotes, individual investors pay additional fees ranging from \$3.25 to \$11 monthly, per stock market exchange.
A Hours/Flat Fee Plan 800-520-4649	<i>Services:</i> From 8:01 pm to 6:00 am local time you can get news, closing quotes, and forecasts and analyses. <i>Hardware:</i> IBM-compatible or Mac computer, plus modem. <i>Cost:</i> \$25 per month for news and quotes only, to \$49.95 per month all-inclusive.

Brokers

Fidelity On-line Xpress (FOX) 800-544-7272	<i>Services:</i> Real-time stock quotes, ability to trade and get instant confirmation; options include Dow Jones News/Retrieval and other information services. <i>Hardware:</i> IBM-compatible computer and modem. <i>Cost:</i> \$119.95 to sign up (special offer now, \$89.95). Customers get 100 free calls (up to 50 quotes per call) for every trade placed through FOX.
PC Financial Network (part of Donaldson, Lufkin & Jenrette)	<i>Services:</i> Real-time stock quotes, ability to trade securities, including options; other financial information supplied through Prodigy. <i>Hardware:</i> IBM-compatible or Mac, plus modem. <i>Cost:</i> no sign-up fees. Available to Prodigy users only, on-line sign-up.
Charles Schwab & Co. Broker 800-272-4922	<i>Services:</i> Securities trading, real-time quotes on stocks, options, mutual funds, warrants, units, rights and market indicators. <i>Hardware:</i> Touch-tone phone. <i>Cost:</i> Free to Schwab customers.
Schwab Equalizer 800-648-4248	<i>Services:</i> Real-time quotes, on-line investment advice, current and historical investment news, and ability to trade. <i>Hardware:</i> IBM-compatible and modem. <i>Cost:</i> \$69 for Equalizer software. Includes 60 minutes of services like Dow Jones News/Retrieval. Note: Schwab brokerage services are also available to customers of GENIE (see below).

Genie Services

America Online 800-827-6364	<i>Services:</i> 20-minute delay on quotes, plus range of financial and other information. Ability to trade via Quick & Reilly. <i>Hardware:</i> IBM-compatible or Mac, and modem. <i>Cost:</i> \$7.95 per month, 10 cents per minute after the first 2 hours.
CompuServe 800-848-8199	<i>Services:</i> 15-minute delay on stocks and options. Also closing prices on mutual funds, dozens of other services. Ability to trade via discounters E*TRADE; Quick & Reilly; Spear, Rees & Co. <i>Hardware:</i> IBM-compatible or Mac, and modem. <i>Cost:</i> \$7.95 a month, plus \$49.95 to sign up, which includes 1 month service and \$25 credit toward access charges of \$12.80 to \$22.80 per hour, depending on your modem speed. Real-time quotes available for \$30 additional per month.
GENIE 800-638-9636	<i>Services:</i> 15-minute delay on quotes, ability to trade, numerous additional services. Real-time quotes available free for Schwab customers (see above). <i>Hardware:</i> IBM-compatible or Mac, plus modem. <i>Cost:</i> \$4.95 a month, plus access charges. In prime time (8 am to 6 pm Monday to Friday) \$12.50 per hour; off-prime hours, basic service is free.
Prodigy Service 800-PRODIGO	<i>Services:</i> 15-minute delay on quotes, ability to trade via PC Financial Network (see above), numerous additional services. <i>Hardware:</i> IBM-compatible or Mac, and modem. <i>Cost:</i> \$49.95 for startup, including first month; thereafter \$14.95 per month; technical stock and fund database, additional \$14.95 per month.

Quote services

Quotron Systems, Inc. RemoteAdvantage 800-2-898-7000	<i>Services:</i> 15-minute delay on quotes from over 60 exchanges, mutual fund prices, various additional services. <i>Hardware:</i> IBM-compatible (at least 386 model) plus modem. <i>Cost:</i> Average \$400 a month. Real-time quotes available for exchange fees.
QuotDial 800-2-898-7000	<i>Services:</i> 15-minute delay on quotes; other financial data. <i>Hardware:</i> IBM-compatible computer (386 or better) with modem. <i>Cost:</i> \$50 startup, \$10 a month, plus \$30 per hour, or \$175 a month, plus \$10 to \$17 per hour, depending on location; real-time quotes available for exchange fees.
PC Quote 800-225-5657	<i>Services:</i> Real-time quotes, news, technical analysis, other services. <i>Hardware:</i> IBM-compatible (386 or better). <i>Cost:</i> \$750 installation fee, \$395 per month, plus exchange fees.

Radio

QuotTrek 800-367-4670	<i>Services:</i> Real-time quotes on stocks, options, futures and funds. <i>Hardware:</i> Special radio receiver. <i>Cost:</i> \$70 monthly for one equity exchange, \$10 to \$30 for each additional exchange, plus exchange fees.
Telemet America 800-368-2078	<i>Services:</i> 15-minute delay on quotes; additional financial data. <i>Hardware:</i> Pocket Quote Pro receiver, or IBM-compatible computer. <i>Cost:</i> \$395 for receiver supplied by Telemet, plus \$35 monthly; computer users pay \$99 startup fee, plus \$37.50 per month; real-time quotes available for exchange fees plus \$10 per month.

Cable TV

Signal 800-367-4670	<i>Services:</i> Real-time or 15-minute time-delayed quotes to your PC via cable TV hookup, FM radio signal or satellite. <i>Hardware:</i> IBM-compatible computer or Mac, plus cable connector (\$325 for time-delayed, or \$695 for real-time) or radio receiver (\$595, real-time only), supplied by Signal. <i>Cost:</i> \$125 startup, plus \$160 monthly base fee; \$20 to \$30 for each exchange, plus exchange fees for real-time.
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With a metal detector, some old maps and gumption, you, too, can build a collection of Civil War artifacts.

Snakes, ticks and Dixie treasure

By Christie Brown



Steve Mullinax with Rebel flag, rifle and other memorabilia
The North won the war; the South has won collectors' wallets.

THE 800,000 Confederate and a million Union soldiers left a lot of gear behind them in the course of America's bloodiest war, in which almost 620,000 men perished. So much, in fact, that hunting for Civil War artifacts is still an active and profitable hobby that continues to feed the nearly insatiable hunger of collectors.

Take Steve Mullinax of Villa Rica, Ga. Armed with a metal detector, shovel, some old maps and determination, Mullinax has amassed one of the country's finest private collections of Civil War artifacts. Over the past years, Mullinax, 46, has unearthed hundreds of items—buttons, buckles, swords, rifles and cannonballs—and continues to find scores of new artifacts every year. Mullinax trades and sells many of his relics at Civil War shows around the country, and has added drums, canteens, uniforms and flags to his collection.

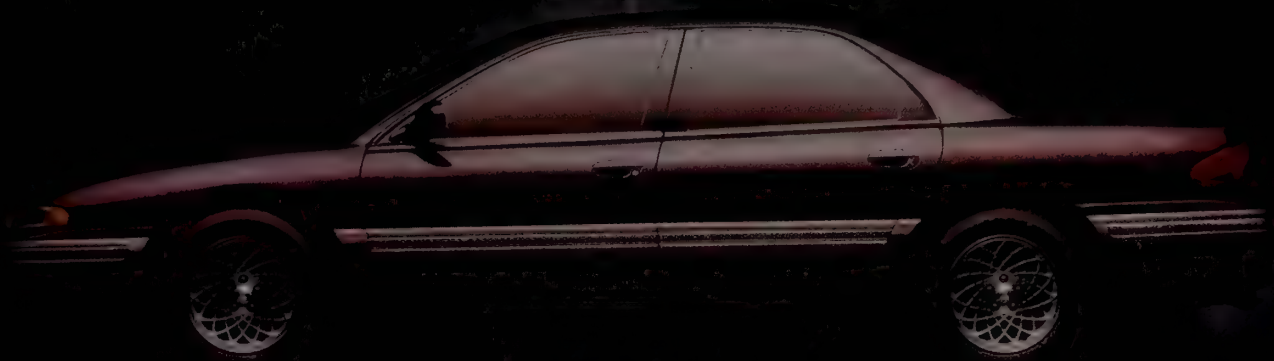
Prices of Civil War memorabilia have been rising dramatically of late, fueled in part by Ken Burns' award-winning television series on the Civil War, seen by over 38 million viewers. Expect another spike after the upcoming miniseries of *Killer Angels* about the Battle of Gettysburg, to be aired later this year.

The highest prices are paid for Confederate Army artifacts, which have doubled in value in the past five years. Take three standard-issue Confederate relics, all stamped CSA (Confederate States of America): A single, round brass uniform button sells for about \$200; a rectangular brass belt buckle fetches \$1,400; an enlisted man's sword, \$2,800. A Confederate canteen can bring up to \$30,000, a flag as much as \$50,000.

In contrast, comparable Union military gear goes for roughly one-tenth as much. Why? Supply and demand: The North had almost twice the number of troops and roughly five times as many manufacturing plants as the South.

With so much collector interest, there should be no surprise that fakes and reproductions have been flooding the market. Instantly weathered with salt water or battery acid, some fakes can deceive the most knowledgeable experts. Mullinax has an "educational drawer" filled with fakes even he

You don't have to own a
Mercedes, Lexus or BMW to appreciate
the new Concorde. But it helps.

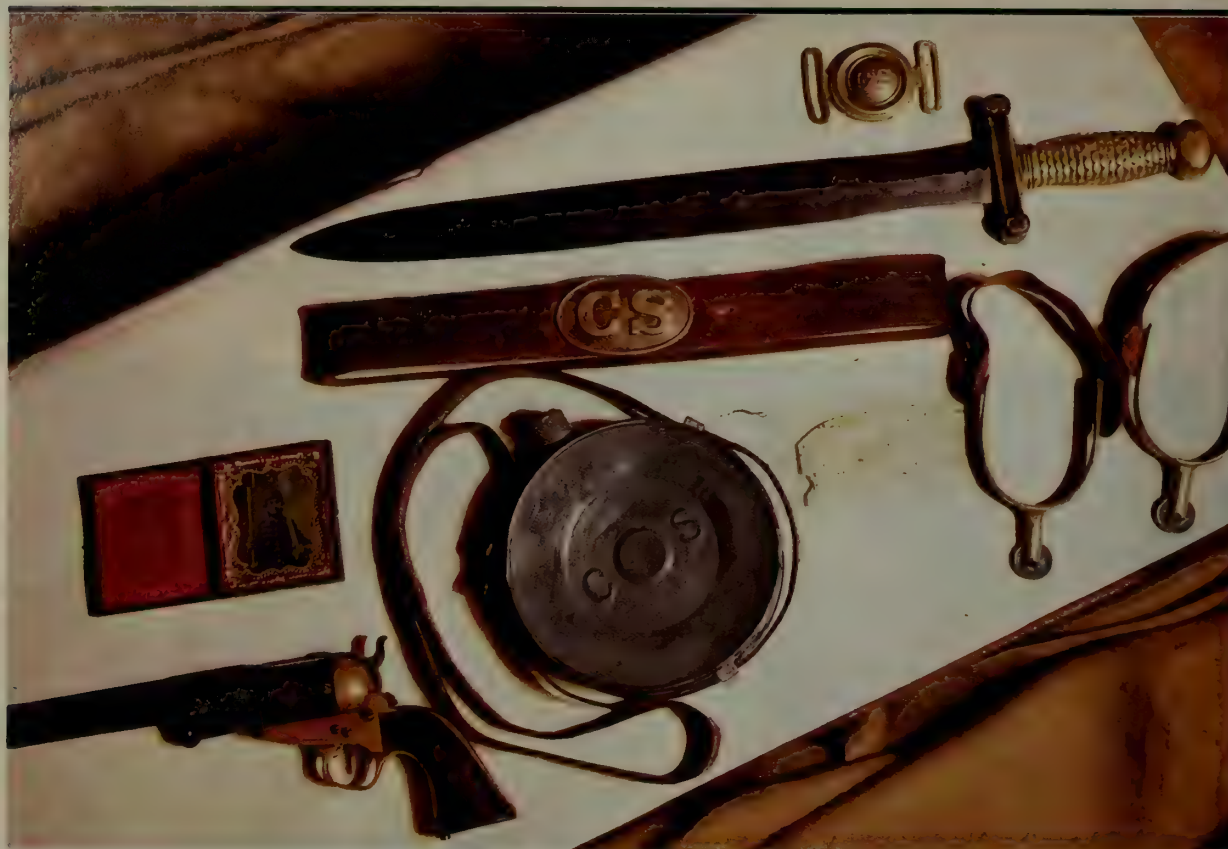


Chrysler Concorde

Owning any of the imports mentioned above means you're well schooled in the world of high-performance luxury sedans. It also means you've paid dearly for that education. Well now, at a mere fraction of the cost, there is the Chrysler Concorde. Created around a new automotive architecture known as "cab forward," the Concorde has a wider track than any Lexus or BMW and more room than any Infiniti or a Mercedes 300E. Its handling has been praised by the automotive press and described as "world class" by *AutoWeek*. And its new 24-valve V-6* delivers more horsepower than a BMW 525i and more torque than a Nissan 300 ZX. It even comes with such standard features as driver and passenger air bags as well as anti-lock four-wheel disc brakes. So if you want to make sure your high-priced education has truly paid off, go out and buy a new Chrysler Concorde. For more information, call 1-800-4A-CHRYSLER.

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Ann Sliemers/ASA

Mullinax has dug from Mississippi to Virginia for relics

National battle fields are off-limits.

been fooled by. Having recently written a book, *Confederate Belt Buckles and Plates*, on the 400 different styles of Confederate belt buckles known to exist, he gets sent a lot of buckles in the mail for verification. Half of what he sees are fakes. To be safe, Mullinax buys only from dealers who offer money-back guarantees. Among them are R.E. Neville in Mobile, Ala. and Stone Mountain Relics in Stone Mountain, Ga.

Mullinax, who invests in rental property, grew up in rural Georgia and started collecting as a kid. His first finds were cannonballs and iron grapeshot, discovered near his home at the site of 1864's Battle of New Hope Church.

Mullinax says that even after 30 years, he still gets a thrill when he unearths a Civil War artifact. He got a particularly big thrill years ago when he unearthed a real rarity: a Union army belt buckle with a bullet embedded in it.

Exploring for Civil War treasures requires ingenuity, strong map skills and some courage. Digging for relics on state or federally protected battlefields is strictly illegal. So Mullinax transposes old maps (available, he says, in local libraries) made by Civil War engineers onto current topo-

graphical maps and sets off after places where Confederate troops bivouacked. Mullinax's relic hunts have taken him through backwoods from Virginia to Mississippi. "I've uncovered plenty of blown-up liquor stills," he says. "You also have to watch out for snakes, wasps and ticks in the summer, and deer hunters in the winter."

Army Sergeant Terry Heilman, now stationed at Fort Myer, Va., is another Civil War artifact hunter who has had notable success since his wife bought him a \$450 metal detector seven years ago. Heilman was ecstatic when he dug up 400 square-headed Civil War nails on his first treasure hunt. But he now knows how to sense when the detector is signaling nails, which are virtually worthless.

Virginia is the one of the richest sites for relic hunters. Heilman, 46, has made some great finds around old home sites. His collection includes spurs, stirrups, 3,000 bullets, 2,000 buttons, 45 belt buckles, two cannonballs and two Union soldier identification disks—early dogtags, in effect. On rainy days he researches his finds and swaps leads with fellow members of the Northern Virginia Relic Hunters Association, which meets once a month in Fairfax.

Relic hunters follow some strict rules of conduct: Always fill in the holes you dig, and always get owner permission to root around on the property. But too many searchers ignore such rules. "A lot of them are vandals," snaps eminent Civil War historian Shelby Foote, who does collect himself.

Network central for relic hunter are the offices of Stephen Sylvia and Nancy Rossbacher who publish *No South Trader's Civil War*. A bimonthly magazine published in Orange, Va., the publication features collectors, ads and a calendar of events. Annual subscription: \$25. Tel: 703/672-4845. The couple also produce a biannual price guide on Civil War collectibles. Price: \$19.

There are two big upcoming Civil War relic shows. One will be at the Georgia state farmers' market in Jonesboro, Ga., Mar. 27-28, the other at the Ramada Inn in Gettysburg, Pa., July 2-4.

If you're interested in putting artifacts in context, the best public collections of Civil War memorabilia can be seen at the Museum of Confederacy in Richmond, Va., Atlanta History Center and the Louisiana Historical Society's Confederate Museum, New Orleans.

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SEPTEMBER 25-27, 1992

DRIVERS		
✓CALLAWAY	57	41.3%
TAYLOR	29	21.0%
FOUNDERS	7	5.0%
MIZUNO	5	3.6%
PING	5	3.6%
DAIWA	4	2.9%
MACGREGOR	4	2.9%
BRIDGESTONE	3	2.1%
All other drivers	21	15.2%
Total drivers	135	

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represents a statement of fact and is
not intended to be an endorsement.

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DARRELL SURVEY

1992 LOS COYOTES LPGA CLASSIC
LOS COYOTES COUNTRY CLUB
BUENA PARK, CALIFORNIA
SEPTEMBER 24-27, 1992

DRIVERS		
✓CALLAWAY	55	37.9%
TAYLOR	41	28.2%
DAIWA	15	10.3%
MIZUNO	5	3.4%
CLEVELAND	4	2.7%
LANGERT	4	2.7%
YONEX	4	2.7%
COBRA	2	1.3%
All other drivers	15	9.6%
Total drivers	145	

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DARRELL SURVEY

1992 VANTAGE CHAMPIONSHIP
(PGA SENIORS)
TANGLEWOOD GOLF COURSE
CLEMMONS, NORTH CAROLINA
OCTOBER 2-4, 1992

DRIVERS		
✓CALLAWAY	37	45.1%
TAYLOR	20	24.3%
FOUNDERS	4	4.8%
PROBE	4	4.8%
SPALDING	4	4.8%
BRIDGESTONE	2	2.4%
CUSTOM	2	2.4%
ANVIL	1	1.2%
BULLET	1	1.2%
COBRA	1	1.2%
All other drivers	6	7.3%
Total drivers	82	

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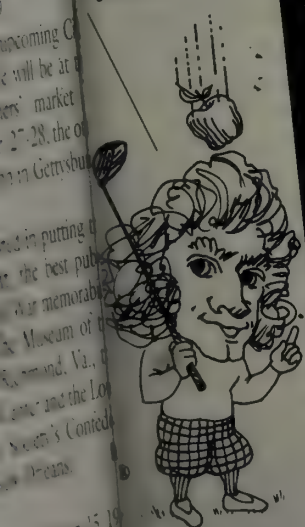
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Robert Blazer has built a tiny produce stand into a \$50-million-a-year business. But don't try to emulate him—it's too much an extension of his personality.

Zen and the art of fresh produce

By Joel Millman

IN 1971 Robert Blazer spent just two days at the Wharton School before dropping out. It wasn't what he wanted. "The human connection was missing," he says. The school was geared to filling executive slots in big corporations.

Anyhow, more book learning wasn't what Blazer wanted. He had already earned an engineering degree from the University of Rhode Island. He went home to Pawtucket, R.I. to help run his father's discount department store.

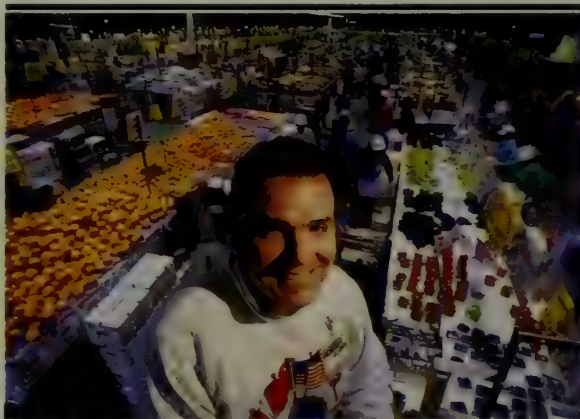
This was more like it. He threw himself into his work, putting in 18-hour days selling dry goods and developing a produce line on the side. When his father, Hyman, went on vacation, Blazer cleared out the basement and added a produce department. He was trying to capitalize on what he saw as an inefficiency in the market. Supermarkets, he felt, were no longer selling produce that was fresh, and small farmers couldn't reach consumers on their own. Blazer recalls: "I saw an opportunity."

He found himself buying fresh stuff from a wholesale market and offering large-volume specials on individual items to make sure the produce moved off the shelves and bins before it went bad.

But Dad's store seemed small and cramped to him. So, at age 28, he decided to start fresh somewhere else. Atlanta, with its rural base and growing economy, seemed perfect. Blazer sold his house, netting \$30,000, and put everything into a farm stand in suburban Decatur, where he repeated

what he had done in Rhode Island: selling fresh produce cheaply to keep from being underpriced by area supermarket chains. First he bought at the state farmers' market, then convinced local farmers to drop small loads with him on their way to town.

Then disaster struck. A freak ice storm in February 1979 collapsed the market's roof and ruined the inven-



Produce entrepreneur Robert Blazer
Fresh fruit, philosophy and profits.

tory. But the insurance didn't cover ice damage—a rarity in Georgia.

Blazer raised capital in a truly novel way: In one of only two ads he has ever run, he asked for donations in personal checks; canceled checks could then be redeemed as food coupons when he reopened. Blazer raised \$40,000 in \$50 and \$100 amounts. He reopened in just eight weeks.

This year Blazer's privately owned Your DeKalb Farmers Market will ring up sales of more than \$50 million. Yes, that's from just one store. At 140,000 square feet, the market is a kind of gourmet Wal-Mart specializ-

ing in fresh produce and imported condiments like *mole* sauce from Mexico and Italian sun-dried tomatoes. Blazer sells 40,000 pounds of fresh fish and shellfish each week, and 26 varieties of lettuce. He stocks 1,700 wines; cases of imported beer, stacked on pallets, go for \$1 a bottle.

Blazer's prices are lower than those of the big chains like Winn-Dixie and Kroger, sometimes by pennies, sometimes by \$3 a six-pack of beer. Farmers say his produce is three or four days fresher, usually arriving straight from the farm instead of spending days in a central warehouse.

The market has become a test lab for Blazer's pet theories on workplace harmony. Here, after all, is a businessman who quit business school because it dealt in numbers, not in people. Blazer wants employees to love their work. If employees meet, marry, and marry, so much the better. Husband-and-wife teams abound—including Blazer and his new bride, who works in human resources; a third, the employees have relatively working for the market. A new hire gets nearly two weeks' vacation the first year.

What's unique also is that only a handful of his workers are U.S. born, the rest spread among 15 countries. Blazer finds that a lot of foreigners feel at home working at the market. Name tags that say things like "Patel, I speak Gujarati and Hindi" help foster an exotic image.

Suddenly, this unusual business has competition. It comes from all people—Blazer's kid brother, Harry, 42. Using what Robert derisively calls "other people's money," Harry Blazer—who refuses to talk with *FORBES*—has opened two farmer's market clones in nearby suburbs and plans to open more. He has hired some of his brother's staff, and cut into his customer base.

But the personal touch will be missing. Starting on a big scale and multiple locations, Harry's enterprise can't possibly duplicate the spirit Blazer has infused into Your DeKalb Farmers Market. "This is a dance, marrying a perishable food item to customers, and doing it right," Robert Blazer sighs. "You make it mechanical, you kill the whole thing."



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Empowered

GENERAL MOTORS' new product programs are mired in delay. Ford's are buried in costs. Yet in just two years, with money and engineers tight, Chrysler has come in with four new vehicle programs and two new engines. "We're coming in on time," says Chrysler's design chief Thomas Gale. "We were never able to do this in my time at Chrysler."

A heap of the credit goes to Francois Castaing, Chrysler's vice president in charge of vehicle engineering. Castaing, 47, is a Frenchman who ran Renault's successful racing program in the 1970s. He moved to Detroit in 1980 as Renault's chief engineer working with American Motors Corp. "What I learned in racing was the ability of small teams to move very fast," he says. "I never thought it took 3,000 engineers to do a car."

At AMC Castaing developed what's become known as the platform team, a tight group of engineers from all disciplines—engines, brakes, chassis—working together and "empowered," the key word, by the corporate hierarchy to make decisions and make them fast.

When Chrysler bought Renault's AMC interest in 1987, Castaing was in charge of engineering for AMC. Lee Iacocca not only kept him on but also

asked him to take over engineering for all of Chrysler when the company ran into trouble in 1988. Castaing quickly broke up Chrysler's old engineering departments—"chimneys," he calls them, because they were vertical organizations—replacing them with his horizontal platform teams.

The bureaucracy fought back. Castaing: "The old-timers wrote to Lee. They said, 'Francois is tearing up everything.' It was true. I was."

With support from Iacocca and Chrysler President Robert Lutz, Castaing expanded the platform team concept to include manufacturing, suppliers and marketing. He created "technical clubs"—opportunities for brake experts, say, on each team to get together weekly to compare notes. To give his teams the political clout they needed to get things done, Chrysler appointed "godfathers," top corporate officers who do double duty, leading a team as well as doing their regular jobs.

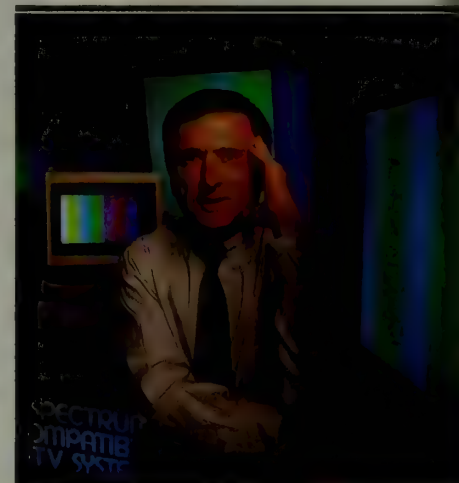
The result is a parade of on-time, on-budget new products: the new Jeep Grand Cherokee last spring, the LH sedans last fall, the big Chryslers coming this spring, and late this year the Dodge Ram pickup and the small Neon car. Chrysler's earnings could exceed \$5 a share this year; already the stock has passed 40, almost quadru-

pling in a year.

Says Bob Lutz: "Francois is the number one agent for change. He's a genuine hero." —JERRY PEARLMAN

The perils of Pearlman

BADLY BATTERED by television price wars, Zenith Electronics Corp. is once again on the ropes. The \$1.2 billion (estimated 1992 sales) TV maker lost enough money last quarter to put it in violation of net worth covenants in its credit agreement with the Bank of New York. Despite this further setback, Zenith's \$35 million of 12½ bonds due 1995 were recently selling at 91. Buyers are betting that Zenith Chairman Jerry Pearlman can



ABOVE: Zenith Electronics' Chairman Jerry Pearlman **Can he keep the sheriff from the door?**

Eric Smith/Gamma Liaison



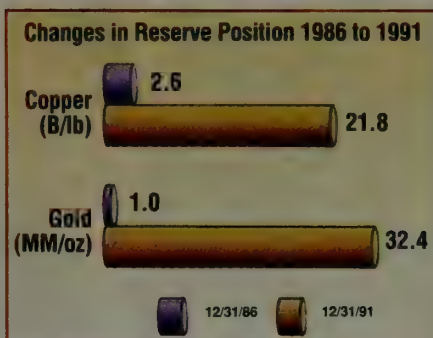
LEFT: Chrysler's chief engineer, Francois Castaing **"A genuine hero," says his boss.**

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refinance he'll call these high-coupon bonds. Can he keep the sheriff from his door?

"We are talking to the Bank of New York," says Pearlman. "But we are also looking at lots and lots and lots of options. Actively." If his bankers won't renegotiate the credit agreement, Pearlman, 53, thinks he can sell assets or raise new equity, maybe from Korea's Lucky-Goldstar Group, now a 5% owner of Zenith.

If he can get past this financial hurdle, Pearlman has high hopes for Zenith's high-definition TV system. The Federal Communications Commission may soon announce transmission standards, and Zenith's could get the nod. But even if the FCC picks a different system, Pearlman says he can make money on HDTV by licensing technology and selling components to other manufacturers. Meanwhile, Zenith's promising high-resolution monitor for computers is "real close" to turning a profit, Pearlman says.

—GRAHAM BUTTON

Deconstructing black boxes

REMEMBER Leland O'Brien Rubinstein Associates Inc.? The firm pioneered portfolio insurance—the use of options and futures to hedge stock and bond portfolios. By 1987 the firm was managing over \$2 billion in institutional portfolios. Then the market crashed. Rightly or wrongly, a lot of people blamed the crash on portfolio insurance and computer-driven trading programs. Within a year or so, Leland O'Brien Rubinstein's assets under management fell from \$2 billion to \$500 million.

"That was a very difficult time for our firm," says the company's chief executive John O'Brien. "But we felt ultimately that demand for hedges would persist."

Demand did persist, and LOR's assets under management have inched back to \$800 million. Now O'Brien says the firm wants to cash in on the huge growth in trading derivative products—everything from puts and calls on French stocks to futures on Asian currencies. It hopes to do so by selling software to audit the complex mathematics inside the black boxes that drive Wall Street's derivatives

trading operations.

O'Brien says many senior managers on Wall Street are scared to death that their rocket scientists and traders are booking big profits in derivatives by taking risks that could submerge their firms if they bet wrong. For a fee of \$100,000 to \$500,000, O'Brien's software will evaluate other firms' portfolios to make sure the underlying assumptions and equations make sense. O'Brien signed his first client for this new service in December.

—LAURA JERESKI

People's mover

FOR OVER TWO YEARS Peter Lynch, the star stock picker who until May 1990 ran Fidelity Investments' \$22 billion Magellan mutual fund, has recom-

mended well-capitalized thrift and bank stocks. But one of Lynch's best performing thrifts is one he never publicly recommended: \$163 million (assets) People's Savings Bank of Brockton, a tiny thrift south of Boston. "I wasn't comfortable recommending it," says Lynch. "It was too small. It was also a long shot."

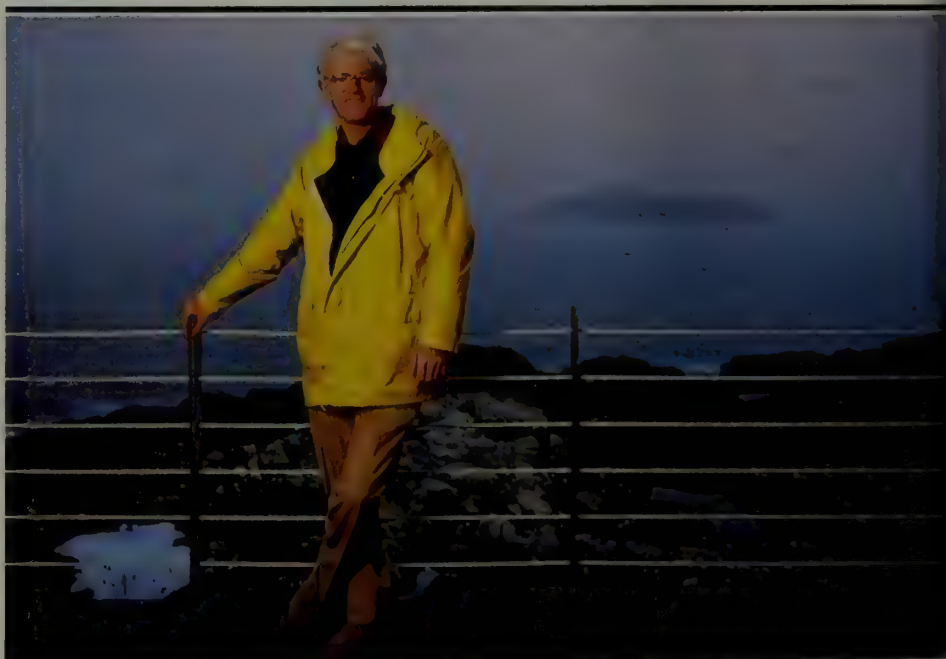
People's has lost money for three years, has \$17 million in nonperforming assets and bad real estate, and its capital base has been cut in half. But where most people saw weakness, Lynch saw People's underlying strengths. "Here's a company that, after losing an enormous amount of money, still had almost 9% equity-to-assets," he says. "That's better than J.P. Morgan."

Last fall Lynch acquired about 6%—135,000 shares—of People's for his own account. Average price: \$2 a share. As word of his buying leaked out through his filings with regulators, the stock began to move. Recent price: 4 3/8. "In all honesty," says People's President Roger Kibart, "the stock has traveled on the news of Peter's acquisition."

Lynch says he still likes People's even though he's already doubled his money on the stock. "If you believe the economy in New England is getting better, it's still a good call," he insists. "I didn't buy this for a two-month play."



John O'Brien of Leland O'Brien Rubinstein
Life after the October 1987 crash.



Stock picker Peter Lynch

"I wasn't comfortable recommending [People's Savings Bank]."



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investors have been buying small cap stocks. But value stocks have been doing very well. The Barra Value stock index was up 10.6% (including dividends) in 1992, compared with 5.1% for Barra's overall stock index.

Robinson-Humphrey market analyst Robert Robbins predicts a 10% correction in the equities markets in 1993 and says this is a good time to stress value—stocks trading at multiples of earnings and book value. He likes ACX Technologies, recently spun off by Adolph Coors. ACX makes aluminum beer cans, packaging materials and ceramics. At a recent price, it sells for less than book value. Robbins also likes St. Louis-based Centile Bancorp, which trades at 2 times earnings and 1.6 times book value, and yields about 3%. For comparison, the market as a whole trades at 15 times earnings and 2.4 times book value.

Special focus

In 1983, seven of the ten most profitable corporations were oil companies. This year, the Institutional Brokers Estimate System expects that only one U.S.-based petroleum company, Exxon, will be in the top 10. If the analysts are correct, the most profitable firm in 1993 will be Philip Morris with \$5.8 billion in net income.

Great expectations

Company	Estimated 1993 profits
Philip Morris	\$5.8 bil
General Electric	5.2
Exxon	5.0
AT&T	4.3
Merck & Co	2.9
Bristol-Myers	2.5
Wal-Mart	2.4
DuPont	2.4
Coca-Cola	2.3
GTE	2.1

Source: IBES

The overall market



Closeup on the market

Index or investment	2-week change	1 year ago	5-year high
Barra All-US index	1.5%	5.4%	-0.1%
S&P/Barra Growth index ¹	0.9	5.6	-2.9
S&P/Barra Value index ²	1.4	10.3	-0.2
Dow Jones industrials	-0.5	0.8	-4.7
S&P 500	1.1	4.9	-1.3
NYSE	1.1	4.8	-0.9
Nasdaq	3.3	12.5	0.0
Amex	2.1	-2.1	-3.2
EAFE ³	-0.9	-13.1	-29.9
CRB futures index ^{4,5}	-0.5	-4.6	-26.0
Gold ⁵	0.2	-7.2	-34.5
Yen ⁵ (per \$US)	-0.3	1.1	-23.9
Oil ⁵	-0.8	0.5	-54.3

The best and worst performing stocks⁶

Best	Price	2-week change	1993 EPS ⁷	Worst	Price	2-week change	1993 EPS ⁷
Creative Technology	29 1/2	56%	\$1.16	Centorcor	7 1/2	-59%	\$-1.91
Anchor Bancorp	14 3/8	47	NA	Damon	13 1/4	-36	1.31
City National	9 3/4	47	0.47	IMRS	16 1/2	-34	0.80
Peoples Westchester SB	33	47	1.52	Walker Interactive Sys	13 3/4	-29	0.71
InaCom	20	43	1.86	System Software	18	-27	1.21

The best and worst performing industry factors^{8,9}

Best	2-week change	Since 12/31/92	Worst	2-week change	Since 12/31/92
Photographic, optical	16.0%	22.3%	Aerospace	-5.6%	-6.9%
Thrifts	10.2	5.6	Air transport	-4.3	-4.0
Real estate	7.6	3.0	Tire & rubber	-4.2	-3.5
Trucking	6.1	7.3	Aluminum	-3.7	-4.7
Electric utilities	5.1	2.5	International oil	-2.5	-2.9

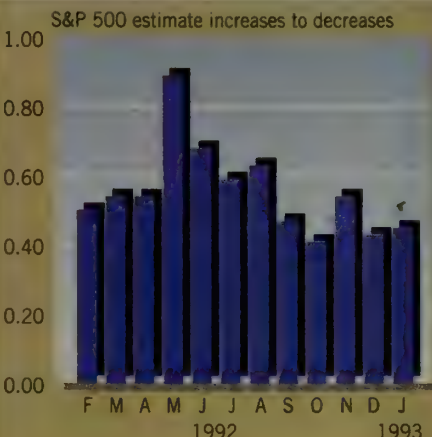
Data for period ending 1/21/93. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. REITs and closed-end funds are excluded. ¹ Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. ² Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³ A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴ Index of 21 commodity futures. ⁵ Knight-Ridder Financial Information, using the last two weeks. ⁶ Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. ⁷ Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

S&P 500 P/E* vs. Aaa bonds†



*S&P 500 P/E is the recent price of the S&P 500 divided by estimated earnings over the next 12 months. †Actual and projected price-to-coupon ratio for Moody's Aaa corporate bond index.

IBES estimate revisions index



Forecasting the S&P 500

Year	Estimated P/E	% change current vs. 3 months ago	Expected year-to-year EPS growth
1992	18.7 ¹	-4%	12% ¹
1993	15.0	-5	25
1994	12.6	0	19

1993 estimates for IBES industry groups

Rising estimates	Falling estimates
semiconductors	airlines
home building	computers
health care-misc	paper containers
toys	aluminum
department stores	steel

The analysts had their rose-colored glasses on again last year. A year ago consensus earnings forecasts put the 1992 earnings of Standard & Poor's 500 index at \$28. Now it looks as if the S&P will turn in a net of just over \$23 before nonrecurring charges, and about \$22 after.

Still, the analysts might be useful in showing the trend, if not the magnitude, of earnings. Consider the revisions index put out by the Institutional Brokers Estimate System. This is the ratio of earnings estimate increases to estimate decreases on S&P 500 member companies. Not

surprisingly, the ratio is well below 1.0—that is, analysts are constantly backtracking.

Nonetheless, here's an encouraging sign: For the twelfth consecutive month, the revisions index is higher than it was during the same month a year earlier. For instance, in January this index stood at 0.45, up from 0.2 in January 1992.

The analysts are now saying the S&P 500 will earn \$23 this year, up 25% from 1992. Don't bet on it, but a modest gain may well be in the cards.

Who's hot

Greatest increase in estimates over the past three months

Company/industry	1992 ¹ EPS	1993 estimate recent	3-month change	P/E	3-month price change	Reason
Biogen/biotechnology	\$0.98	\$0.91	72%	49	24%	Higher royalty payments
DSC Comm/telecom equip	0.20	0.78	56	29	79	Increased sales
Chrysler/automobiles	1.41	3.24	38	11	49	Strong demand for new models
Roosevelt Finl Group/savings & loan	2.92	3.59	27	8	45	Attractive acquisitions
SynOptics Comm/computer equip	1.97	3.06	26	27	53	Higher sales of networking products

Who's not

Greatest decrease in estimates over the past three months

Company/industry	1992 ¹ EPS	1993 estimate recent	3-month change	P/E	3-month price change	Reason
Inco Ltd/nickel & copper	\$-0.12	\$0.40	-72%	54	1%	Oversupply of nickel
Storage Technology/computer equip	0.61	0.99	-66	21	-12	Weak sales, delays in new products
IBM/computers	2.49	2.90	-62	16	-39	Decline in mainframe demand, pricing pressures
Telxon/hand-held computers	0.02	0.66	-59	18	-8	Increased product development costs
Borland Intl/software	0.09	1.07	-53	18	-37	Disappointing sales of new programs

Note: Companies listed have a market capitalization of \$100 million or more. ¹Estimate. Earnings projections are Wall Street consensus estimates data from 3,000 security analysts compiled by the Institutional Brokers Estimate System, a service of IBES, Inc. Aaa bond yield forecasts supplied by Blue Chip Economic Advisors. NA: Not applicable.

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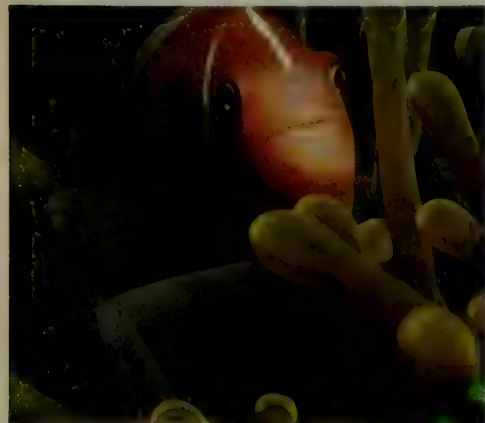
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people who say there aren't many cheap stocks aren't looking very hard.

Acres and acres of bargains

KENNETH L. FISHER



Kenneth L. Fisher is a Woodside, Calif.-based investment manager. His third book is *Minds that Made the Market*.

ALL THE TALK about this being a cheap stock market, I find more cheap stocks out there than I can stick at.

Regular readers know I have been a long-term bull for the last 27 months. I still am. Furthering that trend, I expect the best part of the market will continue to be smaller, cheap stocks of firms that are fundamentally strong in their underlying business. Hard to find?

There isn't space here to detail the good, small stocks that look darned cheap to me. So many, ranking them alphabetically, I run out of space even before I get to Starting with A:

The market values computer giant *Amdahl* (8) at merely \$875 million. A few years ago? Value: \$2.5 billion. It had \$1.8 billion in annual sales then. Now? Sales: \$2.8 billion. Yes, the company has hit some snags lately, like almost everyone in computing, but I think it can earn \$50 million in a few years and keep growing. It's a strong firm.

At 38% of trailing revenue and 65% of book value, *Amdahl* is darned cheap. More so as you note that its balance sheet looks like a rock. Its

depreciation is so large relative to long-term debt that if it chose to, it could use this source of cash flow to pay off all its debt in just nine months. Most firms would need at least five years to do this.

Amax (18) was well regarded 12 years ago at 65—or \$4 billion for the whole natural resources firm. Now, down 75%, its total price tag is \$1.5 billion, but it's still a fine company. At the current depressed price, it is a cheap stock today at just 42% of revenue and 72% of book value.

American Maize-Products (23) is likely to be taken over before long—if not by its peer, *Archer Daniels Midland* (27), which seems likely, then by someone else. At 25% of sales, a P/E of 10, and 85% of book value, *American Maize* shares should do well whether taken over or not.

Ameron (34), a leader in concrete water and sewage pipe, has had tough times lately with the economy and the budget woes of local governments. It should see pickup in demand ahead, and increases in its currently modest foreign sales. Selling well below its 1988-90 peak prices, at 14 times earnings, 30% of revenue, 90% of book value, and with a 4% dividend yield, it could well hit 50 by 1995.

I cited *Black & Decker* (17) two years back (*June 10, 1991*) at 12. It broke through 26 and has now given much of that back, retreating from the big-cap world again. But 32% of revenue, 1.1 times book value and 9 times what I think it can earn in 1994 is simply too cheap for a truly great consumer products franchise. Expect a 100% rise by 1995.

I'm not politically correct, because I love the logging industry, having studied at forestry school before

switching to economics. I love the woods, the smell, the sound, the thud and the feel of a big tree felling. And I love *Blount* (14) and its role as perhaps the world leader in commercial logging products. Its \$169 million total price tag is too low for its logging line; but you get its sporting equipment and construction lines, too—\$700 million in sales all told. I think by 1995 *Blount* could earn \$20 million and the stock be at 30. It was at 20 a decade ago.

CDI (9) leads in two areas that should be hot in the years ahead. Its temporary employment services will hum—from the economic upturn—and from tax incentives to hire long-term “temps” instead of “permanent” help. In a cost-conscious world, contingency-fee executive search (*CDI* is the biggest) will gain share from the “retainer” side of the industry. Valued at \$175 million, *CDI* sells at 20% of sales, 1.6 times book value and 11 times what I think it can earn next year. Hold out for 15.

If you want 15 stocks to put away and not worry about, don't own *Comdisco* (14). But if you own 75 stocks and watch them closely, this computer leasing firm is a good risk, despite the debt inherent in leasing. At 27% of sales, 8 times earnings, 95% of book value and with potential for fat profit margins, *Comdisco* should hit the high 20s by 1995.

Commercial Metals (27). Times have been tough for the metal industry, and with over 50 plants this firm has had more than its share of the troubles. But at 23% of sales, one-third over book value, and 10 times its basic earning power, the stock looks cheap.

Property and casualty insurers are becoming too cheap. An example?

Continental Corp. (27). At 29% of revenue, 75% of book value and with a 4% yield, it's at less than 10 times what it used to earn in the casualty cycle's last upleg. The stock is half its 1986 price and below where it was ten years ago. The company is well run, and the stock could easily hit 50 by 1996.

No cheap stocks left out there? What do you call these? All from A through C. There are about 100 more between D and Z. Out of space. ■

This letter writer's promoters ask whether he has the highest IQ on Wall Street. If he does, this just proves that intelligence has nothing to do with telling the truth.

Leeb's fairy tale

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (Dearborn Financial Publishing).

I HAVE RECEIVED an enormous amount of mail recently about advertising claims made by Stephen Leeb. He's a big deal in the advisory-letter business. He grinds out two separate investment letters, *The Big Picture* and *Personal Finance*, with a combined circulation of several hundred thousand. He also manages the Leeb Personal Finance Fund.

Leeb is no shrinking violet. In one promotional piece he claims to have turned \$10,000 into more than \$39 million between 1980 and 1991—equivalent to a 390,900% gain, or 99% per year compounded. In another, beside a blown-up photo of Leeb, his publisher asks whether he has "the highest IQ on Wall Street." Wow!

Actually, Leeb hasn't done too badly by his clients, but his claims are outrageously exaggerated.

Leeb's advertising includes a table that supposedly reports the actual dates of his buy-and-sell signals and insists that his claim "is a public record—with real numbers." The publishers of Leeb's investment letters have announced they would award \$10,000 to the first person who can "make us aware of anyone beside Stephen Leeb who has multiplied any portfolio, real or paper, more than 390,900% between Jan. 1, 1980 and

today, using any technique, but announcing the required advice in advance in a scheduled publication."

The publisher's \$10,000 is safe. Not even Warren Buffett has come close to 390,900% in that decade. But neither has Stephen Leeb.

The *Hulbert Financial Digest* calls Leeb's weekly telephone hot line updates—and tapes and transcribes them. So we have a clear record of Leeb's calls. The record reveals that Leeb's claimed accomplishment is an after-the-fact reconstruction using the benefit of hindsight.

For example, Leeb's advertising explains that his phenomenal return was calculated assuming that an investor in the futures market went 500% long during each of his buy signals. (That is, using leverage to control \$5 of stock for each \$1 in the investor's portfolio.) But since 1987, when he started writing *The Big Picture*, he has never recommended being 500% long during any of the buy periods identified by his advertising. In fact, his average recommended exposure during these periods was less than 150%—or less than one-third of what his advertising must assume in order to claim Leeb turned \$10,000 into more than \$39 million.

Not only did Leeb never recommend a 500% position during the periods of his buy signals, but not all of those periods were identified by him as buy signals at the time. During some of the weeks that his advertising says he was strongly bullish, for example, Leeb actually was on a sell signal. During others, his model was "dead neutral"—to quote his own telephone hot line messages.

By rewriting his record after the fact Leeb tarnishes what is otherwise a creditable record. Leeb's "Short-Term Trading Portfolio"—the one that supposedly turned \$10,000 into more than \$39 million over 12

years—gained a very respectable 160% over the last five years. That makes it one of the select few portfolios that beat the Wilshire 5000's total return of 105%.

Why would Leeb's publishers be compelled to exaggerate a record that is this good? The answer, according to many other advertisers: Investors aren't all that excited by what is realistically attainable. Leeb's five-year return of 160% equates to "just" 21% per year, for example. Such advertisers say they can't compete with others who are lying or exaggerating if they honestly reported gains like that.

This self-serving argument does not justify lying to investors. It is a naked appeal to gullibility and greed. Long-term performances above 20% per year compounded are exceedingly rare. The top-performing investment letter since 1980 among those tracked by the HFD—Dan Sullivan's *The Chartist*—achieved just a 19% compound rate of return. The top-performing equity mutual fund over the last decade—CGM Capital Development—produced a 20.5% annual rate of return. This is what the very best did in one of the most bullish decades in history. It is fantasy to hope for anything significantly above this.

In any case, however, I'm baffled by why advertisers consider it difficult to sell a compounded rate of return of 20% to 25%. Such returns are more than sufficient to turn even modest sums into substantial fortunes. Compounded at 20%, for example, \$10,000 becomes \$60,000 in 10 years and approaches \$400,000 after 20 years. Any advertiser worthy of the name ought to be able to make this very attractive indeed.

The bottom line? Ignore advertising that makes extravagant claims. Check the actual record; it will often tell a quite different story.

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At GM, Sears and American Express, investor unhappiness has at last been translated into management changes. These will not be the last.

Hurrah for October 15

BY FREDERICK E. ROWE JR.



Frederick E. (Shad) Rowe Jr. is the general partner of Dallas' Greenbrier Partners, a hedge fund.

IF THE HISTORY of the American shareholder is ever written, Oct. 15, 1992 is a day that will live gloriously in the hearts and minds of shareholders everywhere. By changing proxy solicitation rules and by changing disclosure requirements for executive compensation, the Securities & Exchange Commission on that date ushered in a new era of shareholder activism, the implications of which are bullish for the long term.

The last spate of shareholder activism ended badly. During the years 1986-89, big shareholders routinely and successfully demanded that managements of companies in which they held stock act to "maximize shareholder values." That, of course, was code for selling out or leveraging up their balance sheets in order to pay up for their own shares. Risk arbitragers and junk bond dealers did well for a time, but it is hard to see how much good came of the era.

To paraphrase Delaware corporation law, as a matter of law, the duty to manage a corporation resides in its board of directors. What happens when directors fail to carry out their duty effectively? Until the changes that took place in October, most managements and most boards of directors took the attitude, "If you

don't like the way we run the company, sell your stock."

A disgruntled shareholder was left with two other unappealing options. He or she could sue for fraud, waste, mismanagement, etc.—all of which are expensive to litigate and difficult to prove. Or the disgruntled shareholder could propose an alternative slate of directors and mount an all-out proxy fight. This alternative is even more expensive than litigation and the range of possible outcomes is even more complex.

At the risk of oversimplifying, big and small shareholders may now communicate freely with each other without fear of breaking proxy solicitation rules, disclosure rules and who knows what other rules, thereby creating a litigation and regulatory quagmire. Warning: Before instigating a grassroots shareholder movement of your own, you should check out your plans with a competent securities lawyer.

The impetus for changing the rules largely came from huge quasi-indexed public pension funds, which really can't sell big positions, even if they want to. After all, they are indexed. They are "stuckholders." Since they can't sell, what they want is effective management and executive compensation that relates to executive performance. Among public pension funds seeking rule changes, Calpers (California Public Employee Retirement System) has been the noisiest.

Thus if you are a "stuckholder," you can agitate for change much more effectively than before. Further, in proxy materials that will shortly be mailed for companies whose fiscal years just ended, management must fully disclose its total compensation and relate its compensation to performance. Proxy materials, for example,

must include a graph of the company's financial performance over the preceding five-year period as it relates to executive compensation. Further, the company must relate its compensation to comparable companies. There are far too many companies whose revenues and earnings have gone nowhere, while the pay of the executives has gone through the roof.

Outside directors, rather than serving as yes-persons for the strong executives who hired them, are going to have to be far more diligent. In fact, many outside directors have started retaining outside counsel in order to brief themselves on their obligations and responsibilities. Increasingly, directors who don't own material amounts of stock and who routinely collect large directors' fees for little work are going to be sent packing.

General Motors is an example in which the board has belatedly become actively involved in doing its duty. Other prominent examples are American Express and Sears. Better late than never.

Does this new activism threaten management's ability to manage? No at all. It is reasonable to expect management to clearly communicate its business and financial strategies to its owners. It is reasonable to expect management to invest its discretionary cash flows profitably. It is reasonable to expect a management to eliminate fat and extravagant perks. It is reasonable to relate compensation to performance. If a company is not doing what is reasonable, its shareholders will now legally be able to get together in order to forcefully instruct their directors.

A brief list of big companies whose shareholder grumbles may increase would include *American Brands* (37), *Ensearch* (14), *W.R. Grace* (38) and *McGraw-Hill* (60).

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A frank self-appraisal of where I went wrong and where I went right in the year just past.

Scoreboard

BY A. GARY SHILLING



A. Gary Shilling is president of A. Gary Shilling & Co., economic consultants and investment advisers. His firm publishes *Insight*, a monthly newsletter covering the business outlook and investment strategy.

REVIEWING my recommendations for last year, I've got to own up to a few miscalls. My June 22 column said that small companies have outperformed their larger brethren only when high inflation and low productivity growth robbed big-company earnings. These conditions don't prevail now, so I doubted that small stocks would continue to outperform.

Nevertheless, small stocks are up sharply. Since I wrote that column, the Russell 2000 index of small stocks has jumped 22%, while the big-cap S&P 500 has gained only 8%.

Here's where I went wrong: Small firms tend to sell domestically, and are not subject to the negative effects of recession abroad and the strengthening dollar that are plaguing big internationals. I foresaw a strong dollar and global recession, but missed the connection between that and big/small company relative performance.

I also erred in my Aug. 3 column putting down auto stocks. As I predicted, car sales have remained weak, what with the vehicles of the late 1980s still too young to junk, and with debt-weary consumers not willing to incur more auto debt. But Chrysler has doubled. I'm a long-term bull on American business restructuring but underestimated

Chrysler management's success at cutting costs and bringing out new products. GM is down 10% from then, but even the staid auto giant is shedding costs after the boardroom coup threw out the old management.

I was, in part, early in recommending short- and long-term German debt instruments in my Nov. 9 column. The German economy is declining, but I leaped ahead to foresee monetary ease and didn't figure on the intransigence of the Bundesbank. Short-term German rates haven't fallen. At the same time, German bond prices have risen almost 2%.

In general, however, my 1992 prognostications came out well. My "recessionist's portfolio," introduced in my Sept. 18, 1989 column and updated in my Nov. 11, 1991 and Nov. 9, 1992 columns, rose 15.5% through year-end, while the S&P 500 gained only 4.5%.

Specific elements of this portfolio did nicely in 1992, even after I wrote about them. My Sept. 14 column recommended the dollar, the traditional safe haven in a sea of global economic and political troubles. Dollar index futures have climbed 17% since I wrote. My Apr. 27 column reiterated my long-held belief that Japan in the 1990s has restructuring problems that rival those of the U.S. in the 1930s. The Nikkei put warrants I plugged then are up 22% to date.

My Jan. 20, 1992 column recommending long-term U.S. bonds came out well. Since then, long-term Treasury holders have enjoyed a 7.75% yield, plus 5.5% appreciation—not bad for a risk-free investment.

Beyond my "recessionist's portfolio," other 1992 investment suggestions have been fruitful. My Mar. 30 recommendation that renting would be better than buying vacation condos was on target. Single-family houses are just abodes and no longer surefire investments as well, my Nov.

23 column advised. Many now agree as they rush to refinance 30-year mortgages with 15-year maturities, thereby reducing their financial leverage much faster.

My Oct. 12 column warned against accepting the word of a corporate chieftain when he announces that big restructuring writeoff would wipe the slate clean. The first restructuring writeoff is seldom the last, I said, and cited IBM. Enough said.

My May 25 column emphasized the shift in national emphasis from preserving life at any cost to medical cost control. Since then the medical shorts I suggested have fallen 11% while the stocks I recommended have risen 23%. "Productivity is the buzzword of the 1990s," my June column said; the high-tech productivity enhancers listed there are up 15%.

Increasingly protectionist trade blocs and the strong dollar will hurt multinationals, my Dec. 21 column warned, but NAFTA makes Mexican investments exciting. I recommended Teléfonos de Mexico, up 5% since then, and Mexico Fund, up 13%, including a special dividend. Not bad for one month's work.

My 1992 record, then, was good on balance but not perfect. I'm learning from that experience and hope you can too. For 1993 I see more of the same in the U.S. with a stop economy that keeps inflation low, bond prices rising. The zeal for productivity will, if anything, grow. Cost-cutting will add to the pressure for medical cost control. The postwar housing boom is over, and the recent runup in lumber prices has given us the chance to short lumber futures in portfolio we manage.

Elsewhere, Mexico continues to look bright, but the deepening recession in Europe means that the sure investment winner for 1993 is a sharp decline in short-term rates. Hedge your positions against the strengthening dollar, however. In Japan, many hope that ongoing government stock purchases and enthusiasm over the Crown Prince's wedding will save the day. Grasping at straws! The Nikkei may well drop 50%, to 8000.

Above all, in 1993 remember that Markets can remain irrational a longer time than you and I can remain solvent.

th their well-publicized problems, a group of
acial stocks sell at a sharp discount
the market. There are good buys in this group.

Turnaround time

Y S. SALOMON JR.



omon Jr. is chairman and chief executive
on Brothers Asset
ment Inc. and portfolio manager of
n Brothers Capital Fund Inc.
ch assistant: Caroline Davenport.

FINANCIAL service stocks sell at
that appear quite reasonable in
of these firms' earnings pros-
and the valuation level of the
all market. I recommend a group
financial stocks that sell at an aver-
33% discount to the S&P 500,
on estimated results for 1993.
The news of mergers and layoffs
ing financial companies has be-
commonplace and the painful
ptions associated with this con-
ation process have been felt in
y parts of the country. This par-
ar cloud does have a silver lining,
ever. As operations are stream-
and made more productive,
it prospects are enhanced.
The interest rate picture also ap-
s to provide a favorable backdrop
investing in financials. Today's
level of rates will not last once the
nomy picks up speed, but in-
ises in rates are likely to be re-
ined by subdued inflation. Recent
nward pressure on oil and gold
es provides confirmation of a low-
flation environment that is likely to
sist for some time.

A cyclical pickup in the economy
benefits as well as drawbacks.
While it may boost interest rates
newhat, stronger growth in the

individual and corporate sectors will
translate into higher demand for
products and services. In addition, a
pickup in growth ameliorates credit-
quality problems.

Our recommendations in the fi-
nancial services sector fall into three
groups: insurance companies, banks
and thrifts, and broad-based services.

In the aftermath of last year's disas-
ters, pricing in the insurance business
is finally beginning to firm. Even with-
out a pickup in inflation, this industry
looks as though it will have some
pricing flexibility over the next few
years. Our recommendations in this
group—*W.R. Berkley* (43), *Horace
Mann* (27) and *Integon* (30)—are all
specialty insurers.

W.R. Berkley's management seeks
to offset the vagaries of the underwrit-
ing cycle by balancing its regional
insurance and insurance services,
which tend to be somewhat stable,
with specialty operations that are
more cyclically sensitive but are also
potentially more profitable. The stock
sells at 14.1 times estimated 1993
earnings of \$3.05 per share. Berkley
could earn as much as \$7 to \$8 at the
peak of this underwriting cycle.

Horace Mann provides teachers
with automobile, homeowners and
life insurance. The company operates
principally in suburban and rural
areas. The shares trade at just over 13
times estimated 1993 profits of \$2.05
to \$2.10 per share, a 20% discount to
the market multiple. An investor
group, which still owns 45% of the
shares, bought Horace Mann from
Cigna in 1989, and the company was
brought public in 1991.

Integon provides "nonstandard"
automobile insurance to customers
who have been rejected or whose
policies have been canceled by stan-
dard carriers. The company typically
provides less coverage than a standard
carrier and thus there is less risk

attached to each policy. Moreover,
Integon is a very low cost producer,
so it enjoys a considerable pricing
advantage. The shares trade at 15.8
times estimated per-share profits of
\$1.90 in 1993. The company went
public last February.

The consolidation in the banking
industry is far from over. Most coun-
tries have a small number of banks,
while the U.S. still has thousands. At
current levels, two stocks—*Standard
Federal* (24) and *Central Fidelity*
(42)—look particularly attractive.

Standard Federal is the largest thrift
in the Midwest. For several years,
management has chosen to empha-
size retail products and services, and
has thus limited its exposure to com-
mercial real estate and multifamily
loans. Credit quality is high: Standard
Federal's nonperforming assets
amount to just 0.78% of the total,
compared with 4.3% on average for
the industry. The stock trades at less
than half the market's price/earnings
multiple, based on estimated results
of \$3.30 per share this year.

Central Fidelity operates over 200
banks in Virginia and has demonstrat-
ed a remarkably consistent pattern of
earnings increases, despite the down-
turn in the economy. Profits could
advance by 16%, to \$3.90 per share, in
1993. The stock trades at a 35% dis-
count to the S&P 500 multiple.

At current prices I also like the
Foothill Group (9). Foothill provides
financing to distressed companies
that banks will not lend to. The com-
pany has leveraged the analytical ex-
pertise it has acquired here by expand-
ing into asset management, a more
stable business that is likely to boost
the stock's multiple as the contribu-
tion to profits from this source in-
creases. Foothill trades at 8.2 times
forecast results of \$1.10 in 1993—less
than half the market's level.

With its well-publicized problems,
American Express (24) appears to be
at a crossroads. I believe, however,
that the company will emerge consid-
erably stronger as a result of internal
restructuring and cost-cutting, and
the beneficial impact of an economic
pickup on the level of credit card
charges. American Express' shares
trade at just 9.4 times estimated 1993
results of \$2.55 per share—nearly a
40% discount to the market. ■

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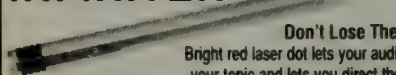
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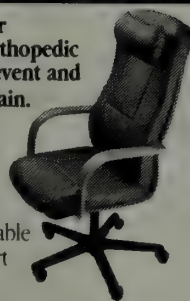
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A smarter LTV play

HOPING TO SCORE when LTV Corp. emerges from seven years in Chapter 11 bankruptcy protection, investors recently piled into LTV's common and preferred shares. Dumb move. According to LTV's recently filed reorganization plan, the company's current equity will be all but wiped out.

Alex. Brown & Sons' distressed-securities chief Peter Faulkner says that there's a much smarter way to play LTV: Buy unsecured LTV Corp. bonds, which trade on the New York Stock Exchange.

Faulkner particularly likes LTV's senior unsecured 15s of 2000. There is \$100 million worth of the issue outstanding; each \$1,000 bond currently sells for \$165. Faulkner says if the company's reorganization plan is approved, each bond will be converted into 12.25 shares of new LTV common stock, plus some warrants valued at \$16.40.

With the bonds selling at \$165, the market is valuing LTV's to-be-issued common at around \$12 a share. But Faulkner believes the new common will be worth at least \$17 a share—he predicts LTV will generate \$250 million of cash flow in 1994. If he's right, then each bond should be priced closer to \$225. Potential return: around 36% within six months for those buying the bonds today.

Faulkner wouldn't sell his new stock right away. During its bankruptcy, LTV invested some \$3 billion in steel plant and equipment and is now one of the most efficient producers. Steel prices, moreover, are just now beginning to rise. "This is the third-largest steel company in America," says Faulkner, "and yet hardly anyone on Wall Street follows it."

—MATTHEW SCHIFRIN

Levitating

CAN ANY STOCK that has more than quadrupled over the past 12 months and now trades at 27 times anticipat-

ed year-ahead earnings still be worth buying? Montgomery Securities analyst Betty Lyter says yes, if the company is Acclaim Entertainment, Inc.

Headquartered in Oyster Bay, N.Y., Acclaim makes videogame cartridges for the Nintendo and Sega game systems. Acclaim's cartridges include such popular titles as *Aliens 3*, *Terminator 2*, *WWF Super WrestleMania Challenge* and *Bart's Night-*

and \$1.05 a share the year following

Any hot stock selling at a fairly multiple is vulnerable to the slightest disappointment—especially if the current hot market for small growth stocks cools off. Still, Lyter thinks Acclaim will continue to rise over the course of 1993. In this kind of market, she might be right. The again. . . .

—MICHAEL SCHUMER



Acclaim Entertainment videogames
What can the stock do for an encore?

mare (as in *The Simpsons*).

Acclaim has been hot. For the 1992 fiscal year ended last Aug. 31, sales rose 76%, to \$215 million. For the first quarter of fiscal 1993, ended Nov. 30, both sales and earnings per share were up 87% over a year ago. Reflecting this, the stock has roared from around 5 in January 1992 to a recent 22 $\frac{3}{4}$. There are 28 million fully diluted shares outstanding.

So why does Lyter still recommend Acclaim? The company, she notes, plans to introduce about 60 new titles in fiscal 1993. Plus it is growing well overseas, mainly in Europe; nearly half of sales are now booked abroad. The company also has landed the videogame license for *Mortal Kombat*, a big hit at video arcades. Finally, Acclaim's greatest growth is in the sale of cartridges for 16-bit videogame systems, fast dominating the market as they supplant the less powerful 8-bit systems.

Lyter predicts that Acclaim will earn 85 cents a share in fiscal 1993,

Recovering

LAST YEAR \$888 million (sales) papermaker Chesapeake Corp. suffered on several fronts. Market prices for pulp slipped more than \$1 per ton since midyear. This cost the Richmond, Va.-based company, which produces roughly 100,000 tons more pulp than it uses, some \$10 million in the fourth quarter. Also, Sweden and Finland, two big pulp-producing countries, devalued their currencies in 1992. The depressed pulp prices, which remain low,

Bottom line: For the year, Chesapeake earned a mere \$14 million, 63 cents a share, from operations and that was before an extraordinary charge of \$10 million for pension accounting changes. Chesapeake's stock has sunk to a recent NYSE price of 20, down 31% from its 11-month high of 29 $\frac{1}{2}$.

But at these levels Michael Beall smells opportunity. Beall, who covers the company for Richmond-based Davenport & Co., likes Chesapeake because it concentrates on niche products like commercial tissue and point-of-sale cardboard displays. Chesapeake also holds a 20% share of the mottled white linerboard market, a business that's growing 7% a year. Companies increasingly favor white boxes for shipping because they can display printed advertising. Beall expects tighter capacity in white linerboard this midyear, leading to higher prices.

Another plus: Last year Chesapeake deleveraged somewhat by selling \$60 million worth of new stock and paying

lebt. (There are now 23.3 mil-
t shares outstanding.)
estimates Chesapeake will
1 a share this year. Recently
at 20 times that anticipated
the stock certainly doesn't ap-
heap. But note that the recovery
is fairly early stages. In decent
Chesapeake earns well over \$2 a
And while you're waiting, the
dividend yield is 3.6%.

—LAURA JERESKI

over play

ON ELECTRIC Power Co. (esti-
1993 revenues, \$650 million)
a mess of itself in the late 1980s.
to diversify into nonregulated
tries went nowhere. Arizona
regulators disallowed or pared
requested rate increases. Debt
up. Management was accused of
leaving. Since 1989 the company
lost money every year. Tucson
Electric's NYSE-listed stock had traded
5 in 1986. By last year it had
psed to 1%.

ally, in 1990 new management
y Charles Bayless arrived. Under
structuring plan adopted in De-
ber 1992, Tucson Electric's lend-
banks eased their terms, and mas-
amounts of new common stock
issued to creditors and preferred
holders. There are now 160 mil-
common shares outstanding; re-
price, 3¾.

ark Luftig, a utilities analyst for
per Securities, likes the stock.
ig thinks earnings will gradually
He estimates the company will
11 cents a share this year but start
make money again in 1994. But
t expect a resumption of Tucson
Electric's dividend. For the next few
rs the company's available cash
v—an estimated \$40 million in
93—will go to paying down its
00 million of long-term debt.

Mind you, Luftig isn't looking for a
ing. He thinks Tucson Electric
res will reach 7 sometime in
98—with the stock recently at 3¾,
it's a compound annual rate of
urn of about 12%. But Luftig is
ing his clients not to buy until the
ce dips below 3. Given the stock's
atility as creditors dump their new
ares, that level might well be
ched. —WILLIAM P. BARRETT ■

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"Colon cancer is a disease that afflicts more than 150,000 Americans each year and eventually kills over half. Yet, any doctor will tell you that with early detection, the survival rate could be raised to as much as 90%.

Can advertising have the power to make people confront this disease, overcome their fear and actually consult their doctors about it?

**"If you doubt
the power
of advertising
I suggest
you consult
a doctor."**



Herb Baum, Pres., Campbell North & South America and Chm. of the Advertising Council.

You bet your life it can.

Take the case of the Advertising Council's campaign against colon cancer. The first-ever study of public service advertising that actually isolated the impact of advertising from other market elements like the news, editorials and public relations.

Research was conducted from July 1989 to July 1990 in 4 markets in 10,000 households, at the equivalent of \$21.3 million worth of air time, the average amount of donated time behind Advertising Council spots.

After six months of being exposed to one commercial, awareness of colon cancer among adults 40 and over rose from 11% to 29%.

After a year, awareness reached 40%.

The number of men who consulted their doctors more than doubled to 15%.

Now, if advertising can get people to see their doctors about something as unpalatable as colon cancer, don't you think it can get people

to consider your product?

Oh, there's one more thing. If you're over 40, ask your doctor about colon cancer."



American Association of Advertising Agencies

If you would like to learn more about the power of advertising, please write to Department D, AAAA, 666 Third Avenue, New York, New York 10017, enclosing a check for five dollars. You will receive our booklet *It Works! How Investment Spending In Advertising Pays Off*. Please allow 6 weeks for delivery.

This advertisement was prepared by Calét, Hirsch & Ferrell, Inc., New York, New York. Photo: Fred Weber.

...more things change..."

25 years ago in FORBES

FROM THE ISSUE OF FEB. 17, 1923)



In 1923 there were only some 24,000 miles of "improved" (mainly gravel-surfaced) roads in the U.S.

...six branches of work the need of...age by motor power greatly exceeds the supply. It is known that each...could be done best in that way, but it is done by rail or with horses, or is not done at all."



...bus, used in western national parks, was a forerunner of the bus industry.

...the public will tolerate from small concerns treatment which [it] will not tolerate from capitalistic giants; and if democracy is to permit the multiplying of mergers, those conceiving and managing them will have to exercise the most scrupulous regard for the rights—and the susceptibilities—of the electorate. The ballot, after all, is more powerful than any monopolistic trust."

50 years ago

FROM THE ISSUE OF FEB. 15, 1933)

Even the oldest veterans never before experienced times like these. They are inclined to lose heart. Not so

new-generation leaders. They refuse to become paralyzed by any thought that the world will never right itself again. 'Tis tough going, yes. But every cloud, they irrepressibly proclaim, has a silver lining, every deflation has been followed by reflation, every panic has been followed by prosperity."

"They call it 'Bobby Jones' Golf Course, the new Augusta National. Attending its official opening last month, I learned that, far from its being a moneymaking venture for him, he has poured his own money and his own time into it unstintedly without any thought of financial reward, motivated purely by...his yearning to build the finest, most varied, most attractive golf course in the world."

50 years ago

(FROM THE ISSUE OF FEB. 15, 1943)

"Is a fourth term for President Roosevelt in the offing? Wendell Willkie isn't the only citizen who believes so. As I see it, all will depend upon what

happens war-wise during the next 15 months. Should we still be waging all-out war when nomination time comes, a fourth term would probably result."

"Soon after the war America will launch into a new era in radio. New FM and television broadcasting stations will spring up from coast to coast; millions of people will be flocking to buy new radio and television receiving sets. Two-way radios will find a new civilian market; television schools and theaters will enter the thriving scene; the amusement and advertising worlds will be revolution-



"Distant early warning" in World War II meant using these giant ears.

ized, and new fortunes are going to be made by enterprising men [now obscure] in the business world."

25 years ago

(FROM THE ISSUE OF FEB. 15, 1968)

"It may not please General de Gaulle, but French investors contributed \$100 million or so last year to help the U.S. balance of payments. They did so by buying U.S. corporate securities faster than they sold them."

"In the [cruise] season the boom started—the season ended June 30, 1959—143,561 passengers sailed aboard cruise ships from U.S. ports—135,682 Americans, 7,879 foreigners. In the season ended June 30, 1967, the figure was 363,879, including 339,476 Americans...."

10 years ago

(FROM THE ISSUE OF FEB. 14, 1983)

"Businessmen rank right behind gangsters as TV villains, according to a study of 263 prime-time shows by two George Washington University professors, Linda and Robert Lichter: 'A stock criminal type is the businessman whose selfish pursuit of profit leads him into illegal activity. TV businessmen and their underlings account for almost one in four lawbreakers with identifiable occupations.'"

"James Gould, president of the Washington Redskins in the new U.S. Football League, makes the point unblushingly: 'Let's face it, we're in the software business, not the football business.' That is one way of acknowledging the real inspiration for the new professional football league that kicks off an 18-week regular season on March 6."

There's one post-Christmas chore I love—writing "Thank you" letters. . . . Lots of companies for many reasonable reasons, I guess, have a policy against sending even Christmas cards, never mind things, at Christmastime. But our clan gets a big kick out of opening the Warner-Lambert box containing an assortment of their wares; we argue over which of the boys is to get the Union Oil Co. necktie [and] all the holiday long we play the marvelous Christmas music sent by Goodyear. . . . None of these things means that FORBES or Forbeses have been "had." But all of us like being thought of.

—MALCOLM FORBES

A Text ...

But as it is written, eye hath not seen, nor ear heard, neither have entered into the heart of man, the things which God hath prepared for them that love him.

—I CORINTHIANS 2:9

Sent in by Dr. Robert G. Wirth, Upland, Calif. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

There are a good many real miseries in life that one cannot help smiling at, but they are the smiles that make wrinkles and not dimples.

—OLIVER WENDELL HOLMES

There is no failure except in no longer trying.

—ELBERT HUBBARD

Trouble will come soon enough, and when he does come receive him as pleasantly as possible. Like the tax collector, he is a disagreeable chap to have in one's house, but the more amiably you greet him the sooner he will go away.

—ARTEMUS WARD

Philosophy triumphs easily over past evils and future evils; but present evils triumph over it.

—LA ROCHEFOUCAULD

Better be wise by the misfortunes of others than by your own.

—AESOP

In time of prosperity friends will be plenty;
In time of adversity not one in twenty.

—JAMES HOWELL

A smooth sea never made a skilled mariner.

—ENGLISH PROVERB

Once upon a time my opponents honored me as possessing the fabulous intellectual and economic power by which I created a worldwide depression all by myself.

—HERBERT HOOVER

There is the greatest practical benefit in making a few failures early in life.

—THOMAS HUXLEY

When the world is destroyed, it will be destroyed not by its madmen but by the sanity of its experts and the superior ignorance of its bureaucrats.

—JOHN LE CARRE

If fortune turns against you, even jelly breaks your tooth.

—PERSIAN PROVERB

If at times our actions seem to have made life difficult for others, it is only because history has made life difficult for us all.

—JOHN F. KENNEDY

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The new generation forgets the spectres that may have tormented the old.

—HALLDOR LAXNESS

An earthquake achieves what the law promises but does not in practice maintain—the equality of all men.

—IGNAZIO SILONE

There are three modes of bearing the ills of life: by indifference, by philosophy, and by religion.

—CHARLES CALEB COLTON

In every kind of adversity, the bitterest part of a man's affliction is to remember that he once was happy.

—BOETHIUS

By trying we can easily learn to endure adversity. Another man's, I mean.

—MARK TWAIN

Icey doings in the mortgage market • Skiing with Fergie

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utiny in the Russian Army • How to play the Japanese O-T-C

March 1

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Forbes

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et, that we will
o the acquiring of
T&T rather than
hem of us," says
illionaire vegetarian
raig McCaw



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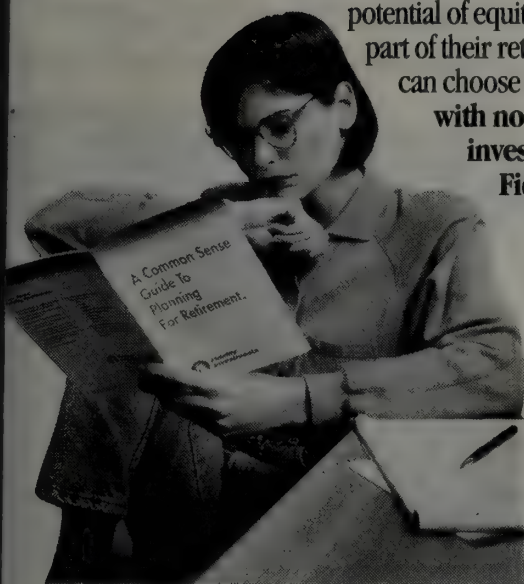
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Before it leaves it gets the one

Walk around the Marysville, Ohio plant where they build the Honda Accord and you'll notice signs that read, "Who is my customer?"

Now, if you were to pose that question to anyone working there, they'd tell you that it's the people following them at the next stage of the manufacturing process.

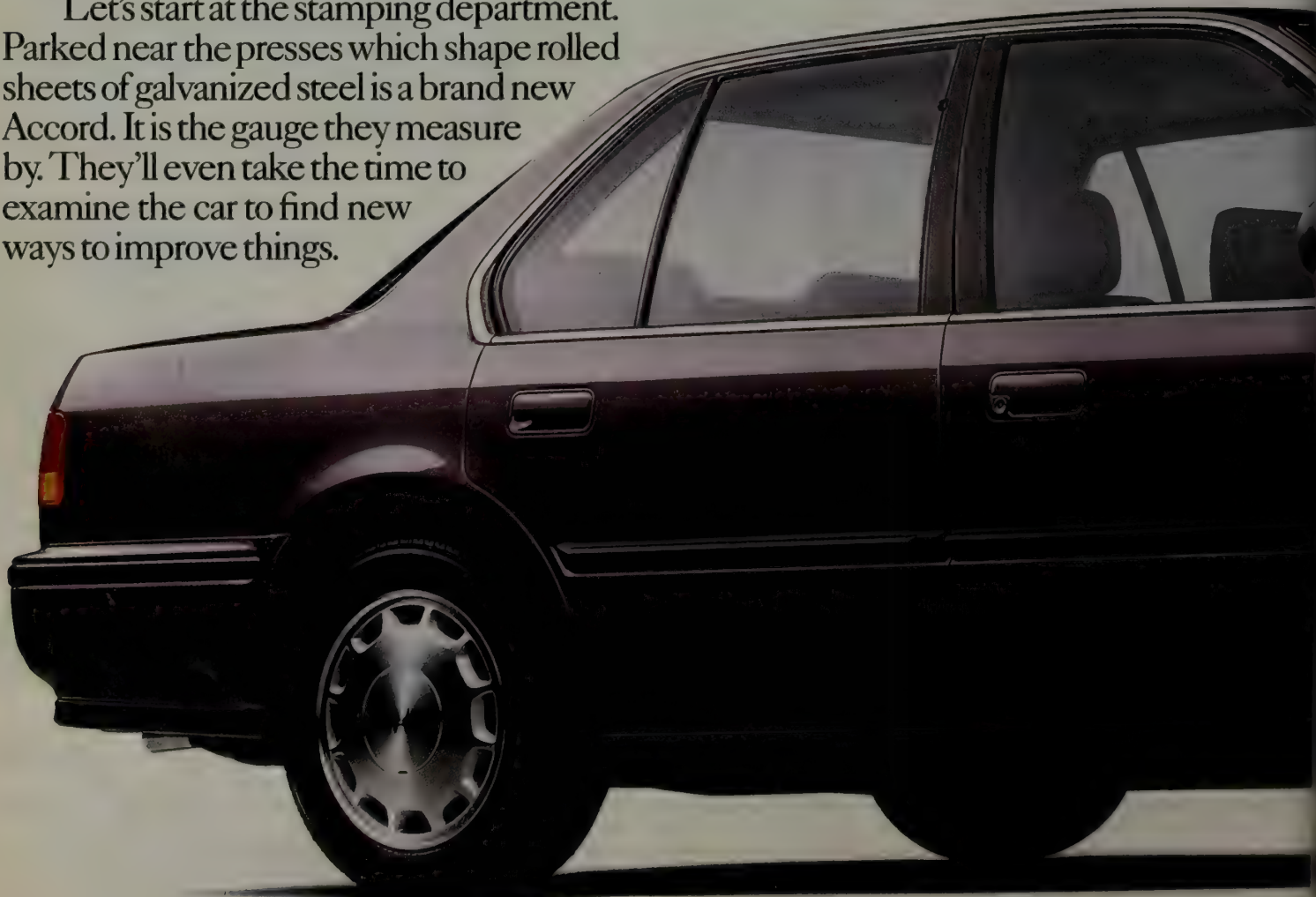
And they have to go out of their way to please some pretty tough clients.

Let's start at the stamping department. Parked near the presses which shape rolled sheets of galvanized steel is a brand new Accord. It is the gauge they measure by. They'll even take the time to examine the car to find new ways to improve things.

They do all of this to ensure that the folks who do the welding receive the finest panels in town. Who, in turn, pass on their top-notch efforts to the team who paints each body panel a total of three times.

So it continues, right down to those on the assembly line who like everybody else expect nothing less than the best to work with.

When the car finally comes together, it gets



...s the factory, ...e over. Twice.

complete white glove test. It's more like a confirmation. Of the care built into the Accord. Inspectors pore over fit and finish. Check engine fluids. Make sure all systems, such as electrical, instrumentation, cruise control and conditioning, are a go. High standards will demand very few surprises.

Then each Accord is taken around a track complete with curves, bumps and a stretch open road. The test-driver puts the double wishbone suspension through the paces. He accelerates and he brakes. He turns on the radio. He even listens for any

wind noise, or rather the lack of it.

Truth be known, Honda is among a small number of automakers to test-drive every car off the production line.

It is this kind of commitment that could explain why the Honda Accord has been the number one-selling car in America for three model years in a row.* Not to mention how comfortable, stylish and roomy it is.

With all of this in mind, are the men and women who manufacture the Honda Accord Sedan proud of their handiwork? You only have to ask them once.

The Accord Sedan

 **HONDA**



*Ward's Automotive Reports, Model Year 1990, 1991, 1992. ©1992 American Honda Motor Co., Inc.

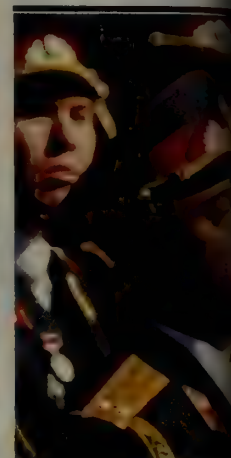


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"The best overnight delivery service is UPS, no doubt."
— Warehouse Manager

"They do it for less. They don't goof up."
— Operation Service Manager

"They go out of their way to help us out. We appreciate that."
— Warehouse Manager

"They give you the best service for the best dollars."
— Fabric Showroom Manager

"We save 30% on overnight shipments. Hey, that stuff adds up."
— Import/Export Manager

"More bang for the buck. UPS does that for us."
— VP, Financial Consultant

"Many times it's me and UPS against the world."
— Shipping Director

"If it wasn't for them, we wouldn't have a business."
— Assistant Production Manager

"A lot of other companies tried to get my business. There is nothing that compares with UPS."
— Chief Financial Officer

"I get here at 8:30 and sometimes they're here before I get in."
— Facility Manager

"Internationally, I recommend only one company. That's UPS."
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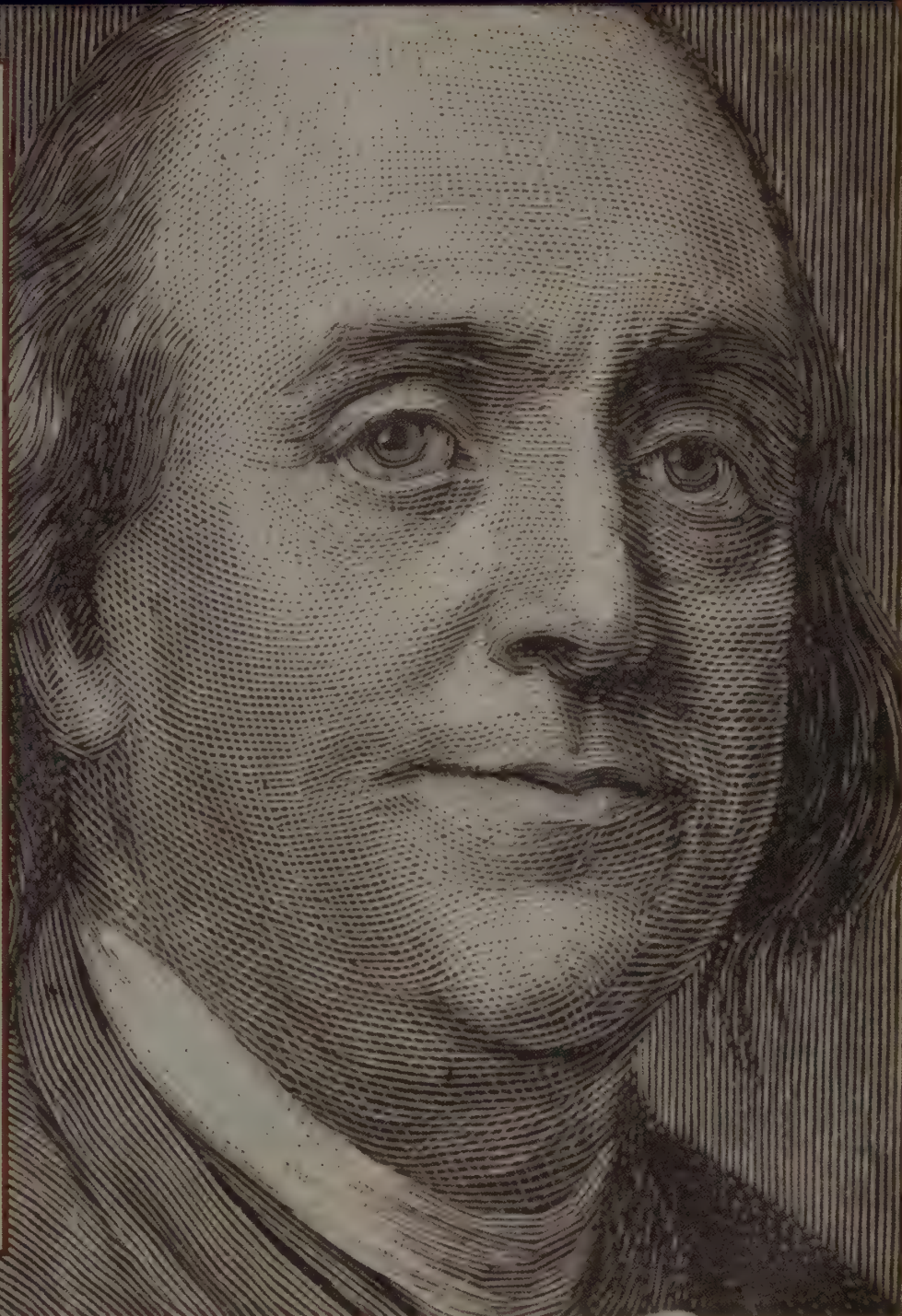
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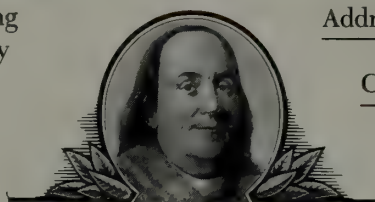
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SIDE LINES
Craig McCaw's cautious gambles

IN 1989 LITTLE MCCAW CELLULAR bid against giant BellSouth for control of LIN Broadcasting. It was a nervy move because Craig McCaw's \$500 million (revenues) company already carried \$2 billion in debt and was now proposing to take on another \$3 billion. Yet Craig McCaw calmly insisted his company was not overleveraged. The statement sounded like hyperbole. How could a company owe four times its revenues and not be overleveraged?

Early this year Fleming Meeks interviewed the hyperachieving young billionaire during a four-day meeting of 130 McCaw executives in Florida. McCaw explained to him that if you had marked his company's assets to market rather than at book value, McCaw Cellular was capitalized quite conservatively. Meeks came away with a much more sophisticated understanding of what constituted leverage and risk in our fast-changing world. He also learned a lot about why McCaw and AT&T make a marvelous fit. "Would you believe it? Craig McCaw says he is risk-averse" begins on page 78



Fleming Meeks

Through the looking glass

"ALICE IN MORTGAGELAND" (page 46) is going to make a lot of Wall Street people unhappy. Laura Jereski takes the reader inside the weird and wonderful world of mortgage-backed securities, where ordinary home mortgages are transformed into crapshoots and where a 35-year-old earns \$12 million a year peddling the stuff.

"I tripped across this story," Jereski tells me. "I was sitting through an Equitable Life conference on private placement. The broker was gleefully describing the techniques for using mortgage-backed derivatives to replicate interest-rate swaps. The fellow in front of me was fast asleep and many of those still awake were slipping away."

"What kept me in my chair was the dawning realization that if I couldn't understand all this stuff, probably a lot of the buyers didn't either. I started asking questions. It seemed many buyers had only sketchy notions of what they were getting. It couldn't be otherwise when a single pool of mortgages can be sliced into as many as 64 different securities."

"What clinched my suspicion was when one of the people involved told me, 'Mortgage-backed securities create value for investors. When I hear that I hold my wallet. And that's what most investors should do when offered this stuff.'" Read "Alice in Mortgageland" and you'll see what Jereski means.



Laura Jereski

James W. Michaels
Editor

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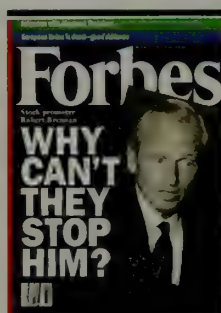
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Bob Brennan's new headache?

SECURITIES REGULATORS have gotten what could be a major break in their continuing investigation of Robert Brennan and the allegedly fraudulent sale of securities in Treats International Enterprises, a Canadian bakery franchisor. Treats was one of the stocks featured in our cover story last fall on Brennan (*Oct. 26, 1992*), whose stock promotions at First Jersey Securities in the early to mid-1980s cost investors millions (*July 16, 1984*). Brennan sold off most of First Jersey's branch offices in 1987. But,



Robert Brennan
Was his old number two man doing his bidding in the allegedly fraudulent sale of stock in Treats?

as we reported in October, he has been using a network of shady brokers to distribute his dubious wares.

The brokers spotlighted in the article were F.N. Wolf & Co., a unit of publicly traded Wolf Financial Group; and Hibbard Brown & Co. In January the Securities & Exchange Commission charged both firms with a fraudulent sales scheme involving Treats stock. Both firms intend to contest the charges.

Now Brennan may have another headache: a wrongful termination lawsuit brought against F.N. Wolf and one John Dell by Stanley Van Etten last month. Van Etten, who worked out of F.N. Wolf's Raleigh, N.C. office, knows Brennan's tactics well. He started out at Brennan's First Jersey in 1984 and worked his way up through the ranks of its successor firms; in 1988 he became a regional vice president at F.N. Wolf.

In his suit, Van Etten maintains that last spring F.N. Wolf began using false presentations and research reports to market Treats stock. Then, in October, as regulators began investigating F.N. Wolf's Raleigh office in connection with Treats, Van Etten got a call from John Dell. Van Etten says Dell offered him a \$200,000

"bonus" if he agreed "to see to it that potentially damaging information did not come into the hands of the investigators." Van Etten further alleged that Dell solicited another employee participation in the scheme. This employee then undertook a "systematic purge" of various files at F.N. Wolf's Raleigh office, according to the suit. Van Etten says he was fired for refusing to participate in F.N. Wolf's scheme to sell Treats.

Who is John Dell? F.N. Wolf lists him only as an "independent contractor"—a position for which he was paid \$3 million in the fiscal year ended last June. Former F.N. Wolf salesman Dell calls the shots at the firm—and that he is the same John Dell better known as Jack Dell, who served as Brennan's right hand at First Jersey. For years Brennan and Dell had a partnership called Robdell; Dell claims he sold his interest in 1987. Last year Robdell was unloading shares of a company called Site-based Media as F.N. Wolf's and Hibbard Brown's customers were buying. Site-based's stock later collapsed.

Is Van Etten just a disgruntled former employee? Perhaps. But whatever his motives, he might be able to shed valuable light on how promotions like Treats International are orchestrated. What's already known about this: Beginning in 1990, according to the January SEC complaint against F.N. Wolf and Hibbard Brown, Brennan bought control of an entity known as S.L. Resources, then merged it with Treats' holding company. That gave Brennan 17% of Treats' common stock.

Brennan then wholesaled the stock to F.N. Wolf and Hibbard Brown, reaping a \$12 million profit. The brokers moved the shares on to the public, at a profit of \$9 million.

With Treats' shares recently trading at 75 cents bid, the public faces potential losses of about \$20 million.

Pay TV's Lazarus act

IN THE early to mid-1980s Time Inc.'s Home Box Office minted money from its premium cable TV service. Then home video took off, and HBO and Viacom International's Showtime Networks became locked in a costly struggle for exclusive rights

big Hollywood films. By 1988 the commercial cable networks were facing new competition for programming from advertiser-supported basic cable channels. Pay-per-view also seemed as a threat. All this convinced executives that pay TV was becoming a dinosaur (Oct. 17, 1988).

But the business was more resilient than we thought. Subscriber counts

HBO and Showtime are gaining subscribers, but how will they fare in the age of digital compression?

HBO and Showtime grew last year after declining in 1991. Operating profit at HBO increased 10%, to \$215 million, while Showtime Networks had a gain of about 10%, to an estimated \$46 million.

What explains this resiliency? HBO has been successfully diversifying into foreign pay TV markets. And sales of original HBO productions for foreign theatrical and home video distribution are booming. Moreover, says HBO Chairman Michael Fuchs, rivalry among the pay networks for Hollywood movies has subsided, cutting licensing costs by as much as 20%.

Both HBO and Showtime are now seeking to add value through a concept known as multiplexing, whereby multiple systems simultaneously run as many as three separately programmed feeds. Thus, for example, an HBO subscriber might have the choice during prime time of an action-adventure film, an HBO original comedy and a family program such as an animated Shakespeare series.

How will HBO and Showtime respond to the coming of digital compression, a technology that will bring hundreds of cable channels and a plethora of pay-per-view offerings? One option is to expand on the multiplexing concept by breaking up the services into component pieces—offering, say, a cowboy or comedy channel. "That might be one way to help people sift through all the choices," says Showtime Networks Chairman Winston H. (Tony) Cox.



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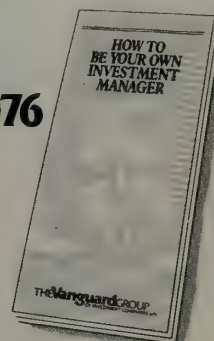
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Slum clearance

WHAT'S BEHIND the latest rioting that has killed hundreds of Hindus and Muslims in Bombay, India's commercial and financial center? Informed sources lay some of the blame on financial greed masquerading as religious and ethnic hatred.

Bombay's population (12.5 million) is exploding, but land in the city is limited because Bombay is an island. As land values have taken off, Bombay's developers have cast covetous eyes on the slums and shantytowns that cover 40% or so of the city. So, when there was a confrontation between Muslims and the police in early January, the developers seized the opportunity to do some "urban renewal." Our sources say they backed rival gangs of rioters, Hindus and Muslims, who swept through the slums burning large portions and terrorizing residents into fleeing their homes. Now prime tracts of land may be available for development into profitable high-rise buildings—albeit at a terrible cost in terms of human suffering.—SUBRATA N. CHAKRAVARTY



Rioting in Bombay's slums

Religious hatred wasn't the only cause.

have commissioned Fort Lauderdale's Heritage House Galleries to reproduce a copy of Edouard Manet's "A Bar at the Folies-Bergère" with Graf as the woman in the scene, and a copy of Leonardo da Vinci's "Mona Lisa" with Sabatini's face. Both paintings will be hung near center court.

"Sabatini is the Mona Lisa, except for the bangs, of course," deadpans tournament director Sharon O'Connor. The paintings, which together cost \$12,000, won't be for sale, but postcards of them will be available. "We might auction the paintings at Christie's at the end of the year," says O'Connor. "It's been a fairly expensive practical joke."

—CHRISTIE BROWN

Live from Wembley Arena

HOW MANY PEOPLE got burned in the Bank of Credit & Commerce International scandal? Here's an indication: For their 2:30 p.m., Thursday, May 27 meeting with BCCI's creditors, the bankrupt bank's liquidators have hired London's 12,000-seat Wembley Arena, usually a venue for rock concerts and prizefights. The liquidators expect at least 5,000 people to show up—mostly BCCI's hapless depositors, largely from Asia and the Middle East. Some lost their life's savings when BCCI went under. At Wembley, they are likely to learn how very little they will get back.

As for Agha Hasan Abedi, BCCI's founder and chairman, he's been lying low in his native Pakistan since the scandal broke in 1991 and isn't expected to take the stage. —S.N.C.

The Mona Sabatini

TENNIS STARS Steffi Graf and Gabriela Sabatini are being turned into works of art for the Virginia Slims tournament to be held in Delray Beach, Fla., starting Mar. 1. Tournament officials



Wayne's world

FORBES FOUR HUNDRED member Wayne Huizenga must be planning for the day when people will order movies over telephone and cable television lines rather than trot down to the local video rental outlet. Huizenga is chairman of Blockbuster Entertainment Co., the world's largest video rental chain. Last year he plunged into music retailing. In January he agreed to pay \$25 million for 35% of Republic Pictures, a small independent movie producer and distributor whose film library includes such classics as *High Noon*.

Huizenga's latest gambit: Just outside Fort Lauderdale, Blockbuster is building what it says could be the first of several giant family entertainment complexes. The Paradise Golf & Recreation Center is scheduled to open in April. It will feature a two-tier driving range able to handle 90 golfers at a time, plus batting cages, virtual reality machines and an indoor miniature golf course with a tropical setting. Future plans include bumper boats and an Imax wide-screen movie theater. Huizenga may even be a customer. A 12-handicap golfer, he lives about 20 minutes away.

—CHRISTOPHER PALMERI

Watch those partners

NEW YORK freelance writer Shelby White thinks few women know anything about their husbands' finances. So she's written a book, *What Every Woman Should Know About Her Husband's Money*. Example: A woman

who is suddenly widowed should scrutinize her husband's health plan, Social Security benefits, pension benefits and the value of his stock options. If the husband was in a business partnership, says White, widows must make sure that his partners don't cheat by putting a low valuation on his piece of the action.

Presumably, White had plenty of good advice when researching her subject. She's married to Leon Levy, a founding partner of Wall Street investment firm Odyssey Partners and a man worth many millions.

—ROBERT LENZNER

Sore loser

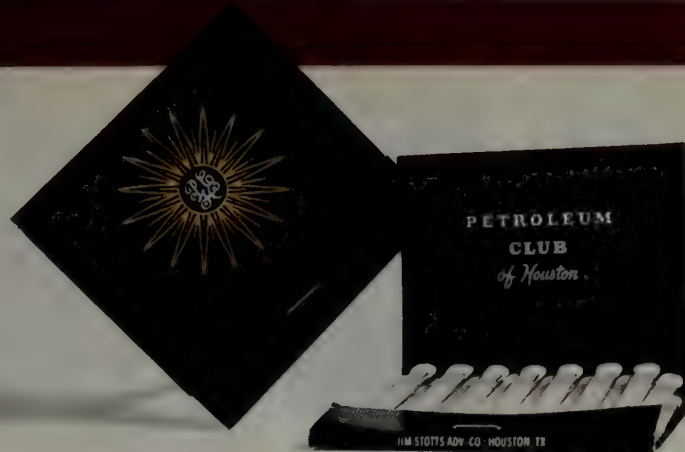
LAST OCTOBER E.W. Scripps Co. put its *Pittsburgh Press* up for sale. First Boston was hired to negotiate the deal. The winner, with a bid of around \$100 million: Toledo-based Blade Communications, which owned the rival *Pittsburgh Post-Gazette*. Blade has since shut the *Press* leaving its *Post-Gazette* as Pittsburgh's major newspaper.

Now a failed bidder, Richard Mellon Scaife, the Forbes Four Hundred

A Petroleum Club of Houston matchbook

Going to the lawyers?

Joann Coates



member who owns a suburban Pittsburgh daily, is suing Scripps, Blade and First Boston. Scaife complains he would have paid as much as \$135 million for the *Press* but wasn't given adequate opportunity—a curious claim considering that Scaife was for many years a First Boston director. Says James Rutherford, the First Boston banker who handled the *Press* sale: “I tried to contact Scaife, but I never heard boo from him.”

The new crowd

THE POSH Petroleum Club of Houston, atop the downtown 45-story Exxon Building, used to be exclusively for oilmen. But since oil prices collapsed, the club has fallen on hard

times. Its membership peaked at 2,400 in the late 1970s and is now at about 1,600.

Now the Petroleum Club is going after a new crowd of more fortunate souls: lawyers. In January the club mailed letters to the 14,000 members of the Texas Bar Association who live in Houston's Harris County. The pitch? A special one-time, get-acquainted offer to join the club for only \$80 a month, plus \$10 a month for beverage charges. (Regular members pay \$90 a month.) After a year, the lawyers will be eligible to join the club as full-fledged members. “That’s assuming,” quips Donald Clutterbuck, a club director, “they don’t swing from the chandeliers.”

—CLAIRE POOLE

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READERS SAY

Measuring IQs

SIR: Re "Gambler Dan" (Feb. 1). The concept of intelligence is relative and there is no agreed-upon definition in the scientific community. Seligman's thesis that potential job performance can be predicted by IQ scores is naive, simplistic and destructive.

—JOHN F. FIELDER

President

California Institute of Psychology
San Francisco, Calif.

SIR: No consideration is made for the fact that the American white on average has more availability to quality child care, has better nutrition, has more access to prenatal care, has better health care, has more stimuli in his early years, has a better family life because of his higher income and is better educated. Imagine if the differences between the royalty and the peasants of medieval Europe could be measured. The results would be very similar to the "results" mentioned.

—CARL GRANADOS

Asheville, N.C.

SIR: The only thing that IQ tests accurately measure is one's ability to take such tests. Schools in middle-class communities do a great deal more testing of the students. It comes as no surprise, then, that students from middle-class schools, typically white, do consistently better in taking the tests.

—DANIEL W. WILLIAMS III

Oakland, Calif.

Self-monitoring

SIR: A glaring example of Sowell's thesis ("Of right and wrong," Jan. 4) is what is happening to the medical profession. In teaching hospitals, all patients are examined by a number of

physicians and their problems discussed in detail. Physicians are motivated to contribute new information, which means that they have to be abreast of the literature, and the care of the patient benefits from the intellectual competition, as well as from the concern of many people. The advent of peer review and other forms of monitoring, expensive and time-consuming, have done nothing to improve the quality of care.

—M. HENRY WILLIAMS JR., M.D.

Professor of Medicine

Albert Einstein College of Medicine
Bronx, N.Y.

Twice a victim

SIR: Advocates are not asking for "special" treatment for battered women ("Women who kill," Jan. 18). We are asking that battered women be allowed to tell the jury the truth of their abuse at the hands of their batterers. The battered women whose clemency petitions are before the governor of California pose no threat to society. Most of them have never committed a violent crime before. They killed their batterers as a last resort—out of fear for their own lives and/or the lives of their children. They were victimized twice: once by their batterers and by society's failure to answer to their calls for help, and again by a criminal justice system which failed to recognize their claims of self-defense.

—ARIELLA HYMAN

California Coalition for
Battered Women in Prison
San Francisco, Calif.

Risky business

SIR: From reading this article ("In praise of options," Jan. 18), a lay



person would conclude that it is the direction of the underlying commodity, in this case the yen, that primarily drives the options price. In fact, volatility, time decay and, to a minor extent, interest rates play a part also, volatility playing a very major part. Krieger fails to tell the reader that it is very possible (assuming, for example, we own a call on the yen) for the call to drop in price even though the yen rises! This could easily happen if volatility drops sharply, or the value could be eroded by time decay. Options are not just a cheap bet on direction.

—ROBERT CRAVEN

President

Fixed Income Management Group
San Francisco, Calif.

Subtle racism

SIR: Re "The hidden clue" (Jan. 4). The fact that default rates are historically similar for whites and minorities does not reflect the fact that many qualified minority applicants were rejected by a particular institution; the point is not that minorities have no access but rather how much additional effort they must put forth to gain access as a result of discriminatory practices. Alicia Munnell of the Federal Reserve Bank of Boston says that she has no hard evidence that racism occurs. Well, of course not! Racism is anecdotal—it's the security guards who follow me, a young black male, around stores assuming that I intend to steal. The subjective nature of lending allows similar practices.

—CRAIG A. TIMMONS

New York, N.Y.

Source of revenue

SIR: Re "The accounting games charities play" (Oct. 26, 1992). There was an oversight in your calculations for the Cancer Research Fund of the Damon Runyon-Walter Winchell Foundation. The cost of operating the Fund's Broadway theater ticket service was included in the calculations, but not revenues derived from this operation.

—REBECCA R. KRY

Executive Director

Cancer Research Fund of the Damon
Runyon-Walter Winchell Foundation
New York, N.Y.

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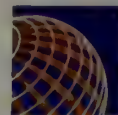
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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*



CONTRARY TO POPULAR MYTH

a big budget deficit does not necessarily mean higher interest rates.

As Washington's red ink climbed between 1980 and 1986, interest rates dropped like a stone. Conversely, as the budget shortfall fell in 1986-89, both in absolute terms and as a percentage of our economy, interest rates went up. We all know what's happened to federal finances in the early 1990s, yet the cost of money has fallen to a level not seen in a couple of decades.

Alarmists worry that if Uncle Sam is borrowing more, there is less left for everyone else. But there is no fixed amount of capital. If financial markets are growing, ipso facto, more capital and money are created. Financial markets, in turn, react to expectations about the future. If the authorities are pursuing sensible monetary policies and if the tax burden on work, profits and risk-taking is declining, people will bid up the price of financial and other assets.

In the early 1980s the inflation fever was broken. The budget deficit zoomed because the government had no

more inflationary revenue windfalls (before Reagan's tax cuts, inflation kicked people into higher tax brackets even though their real incomes went down) and because of the military buildup that ended the Cold War.

When there is prosperity, budget deficits eventually decline as government tax receipts grow. By early 1989, state and municipal budget surpluses just about equaled Washington's red ink. But the boom boosted demand for capital, and hence the price of money moved up. Moreover, we were in one of our periodic trash-the-dollar moods, and that boosted interest rates, too. Weak money begets inflation.

From 1990-93 the deficit mushroomed thanks to the tax- and regulation-induced recession. Interest rates went down because the demand for capital

went down and because the Fed largely pursued noninflationary policies.

The policy implications are clear: Lower interest rates come from a sound dollar; lower budget deficits come from both lower taxes on work and capital and a minimum of antibusiness regulations.

Year	Federal deficit (\$bil)	Deficit as % of GDP	Change in CPI	3-month T bill rate	30-year T bond rate
1980	\$ 73.8	2.7%	12.4%	11.4%	11.3%
1982	128.0	4.1	3.8	10.6	12.8
1984	185.4	4.9	3.9	9.5	12.4
1986	221.2	5.2	1.1	6.0	7.8
1988	155.2	3.2	4.4	6.7	9.0
1990	220.5	4.0	6.1	7.5	8.6
1992	290.2	4.9	2.9	3.4	7.7

Sources: OMB; Commerce Department; Council of Economic Advisers; Federal Reserve.

AMERICA'S NEW ISOLATIONISM

WE'RE PRECIPITOUSLY CUTTING BACK the number of U.S. troops based overseas. In Western Europe we have gone from 300,000 to 185,000, and if present trends continue, that number will actually drop to under 100,000 in the next couple of years. Military strength is also declining at other foreign bases.

The Cold War is over; we don't at the moment have a monolithic enemy. But without a forceful U.S. presence overseas, the forces of chaos and aggression will grow in strength. The magnitude of these cutbacks is extremely shortsighted.

U.S. policymakers console themselves with the thought that if we have "rapid response capabilities"

stationed here in the U.S., we can quickly apply American force to any world trouble spot, such as Bosnia, where there is talk of joining a U.N. peacekeeping force. Even the U.S. Army has bought into this fallacious notion.

The blunt truth is that without troops overseas our ability to prevent trouble diminishes exponentially. By maintaining a sizable presence in Europe, the U.S. will have decisive influence in rallying allies and will have credibility with would-be troublemakers. Corporate managers usually don't pay attention to outside investors if they hold no shares; geopolitically, our troops are the equivalent of big blocks of shares.

Henning Christoph/Black Star



They do more good over there than over here.

If the world senses that we are withdrawing, others will move in to fill the vacuum. Serbia's Hitleresque boss, Milosevic, has successfully played European nations off one another. In 1991 the U.S. should have used NATO to respond to his aggression, which now is encouraging other nationalities to settle old scores by bloodshed and is threatening to cause wider war.

In Asia, China is rapidly arming. Without a meaningful U.S. military presence stationed in that region, Japan and Russia will eventually respond by beefing up their own

militaries, with all the consequences that entails. Moreover, in not too many years numerous nations will have the technological capability to send missiles hundreds and then thousands of miles.

Clinton and Congress are not using old-time isolationist rhetoric, but their budgetary decisions are speaking that same language. Unless these isolationist trends are reversed, we will eventually have to sacrifice immeasurably more U.S. blood and treasure to help curb the forces our shortsightedness helped to create.

ALARMING DRIFT

PRESIDENT CLINTON IS in danger of becoming our most protectionist President since Herbert Hoover. Unless he decisively sets forth his principles on trade, his Administration will be bombarded with protectionist appeals that will then be hard to resist politically.

The Commerce Department has slapped prohibitive duties on steel imports from 19 countries, including the struggling democracy of Poland. The auto industry already thinks it has won the battle to have duties boosted tenfold on imported minivans. Other industries and companies are trying to erect barriers against imports.

The Commerce Department is twisting the U.S. dumping law to prohibit or inhibit more and more imports. The law allows us to calculate arbitrary profit margins on what foreign products should earn and to be equally arbitrary in deciding if these items are selling at the "correct" prices.

The Administration has already slowed down passage

and implementation of the North American Free Trade Agreement. Just as ominous, the White House appears indifferent to successfully completing negotiations for a new global agreement to reduce trade barriers, the so-called Uruguay Round.

One of the most powerful engines of the post-World War II boom was the explosive growth of international trade and its resultant capital movements. Unless the new Administration is firmly committed to more trade liberalization, this momentum will grind to a halt. All economies will suffer.

Remember, it was a U.S.-triggered trade and currency war that brought on the Great Depression. The 1929-30 Smoot-Hawley Tariff was the chief villain. The danger today is an accumulation of measures having a similar impact.

Will Clinton have the backbone and foresight of his hero John Kennedy, who forcefully and successfully pushed for freer trade?

HOOVER SIGNS TARIFF BILL

PERIL TO WAR DEBTS
SEEN IN OUR TARIFF

European Critics Fear Difficulty
in Making Payments if Trade
With Us Is Curtailed.

-The New York Times, 1930

U.S. Imposes Heavy Tariffs On Steel From 19 Countries

Canada Imposes Tariffs on Steel From U.S.

Europe Threatens Retaliation on Steel

-The New York Times, 1993

Clinton had better firm up free-trade policies.

UNLEASH BANK LENDING

THE PRESIDENT and Treasury Chief Bentsen can enormously help the economy by ending the reign of terror of federal bank examiners.

In the aftermath of the savings and loan debacle, commercial bank regulators vowed that they wouldn't be accused of laxness. But they overreacted. In numerous cases, for example, banks were forced to take reserves against loans where both payments for principal and interest were current. Examiners claimed that there wasn't sufficient collateral.

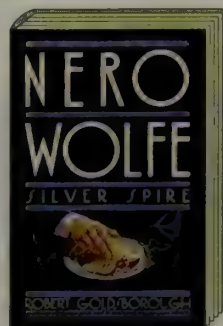
Bankers drew the obvious conclusion: Why risk regulatory ire by making loans to business borrowers? With interest rates falling, banks could borrow at 3% and lend to Uncle Sam at 5% or 6%, thus making money without risking hostile questions from regulators. This caution has hurt the pace of recovery.

The new Administration could also sensibly modify the excessively harsh, detailed rules embedded in the banking bill passed in late 1991. These and other rules cost the entire banking industry up to \$17 billion a year.

NEO NERO WOLFE

Silver Spire, a Nero Wolfe mystery—by Robert Goldsborough (Bantam Books, \$19). If you can't have a séance with Nero Wolfe creator Rex Stout, the next best thing is reading a Goldsborough mystery, a superb facsimile of the old master's.

Here Wolfe's smart-alecky but character-discerning sidekick, Archie Goodwin, relates how the portly detective unravels the source of evil-doing at a newish New York church,



where its charismatic, public-relations-minded minister has attracted the allegiance of thousands of parishioners. Some church officers are rather unchristian. One of Wolfe's freelance legmen is accused of murder. The case is hampered by Wolfe's own version of a nervous breakdown. But our hero's secular-mindedness doesn't diminish his biblical knowledge, which he uses brilliantly to crack this case.

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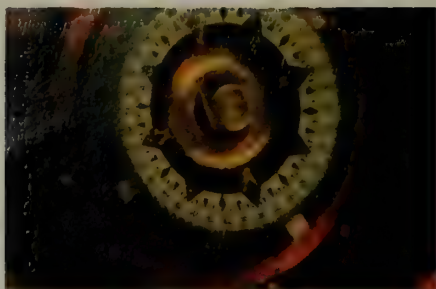
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Other Comments

Taxing Occupations

ADAM SMITH once asked me, "Why is it an inventor can sit in a room for five years with a sheet of paper and a pencil, and when he finally comes up with something, it's capital gain; but when writers do the same thing, it's current income, which is heavily taxed?"

—TOM WOLFE, *Esquire*

This Is a Stickup!

U.S. TAXPAYERS may be stuck with a bailout of World Bank bonds. One World Bank report evaluated 359 projects [and] reached the astounding conclusion that 36% of them had failed by the time their funding was completed and that only half of the remaining 64% would survive over time.

Another report sees "a gradual but steady deterioration in portfolio performance." It turns out that the best way to get promoted in the World Bank was to make a lot of loans. To justify churning out loans, optimistic financial techniques were used that overestimated the likely success of the projects that were being financed. In effect, World Bank employees built successful and lucrative careers by con-

structing a shaky loan portfolio. If the same standards were applied to them as were applied to S&L executives and directors, they would be facing liability suits, shareholder outrage and possible criminal prosecution.

—PAUL CRAIG ROBERTS,
Washington Times

Except Maybe Chop Suey

LEVI STRAUSS & CO. shirts marked "Made in China" also bear the slogan "Nothing is more American than Levi's."

—*The Progressive*

Smoke and Mirrors

THE COMMERCE Department [has] announced that companies from 19 foreign nations have been found guilty of dumping steel on the U.S. market and has imposed provisional tariffs as high as 109.22%.

Though Commerce calculates its "less than fair value" dumping margins down to the second decimal point, the final numbers are often the result of smoke and mirrors. Its extreme rulings in the dumping cases are in the protectionist spirit.

Commerce cannot clobber foreign sellers without also harming American buyers. It is sacrificing the majority of American heavy industry to gratify a few greedy steel producers.

—JAMES BOVARD, *Wall Street Journal*

All traditional methods of dieting have amounted to a myth as big as communism, and, like communism, they are destined to collapse.

—MICHEL MONTIGNAC, French diet expert, *New York Times*

Double Standards

LOOK AT THE Zoë Baird nomination story and imagine that the genders had been reversed. I think a male nominee, with all the other facts the same, might well have been confirmed as Attorney General. Part of the public feeling was class resentment of Ms. Baird's \$500,000 salary. Would anyone have complained, or noticed, if a male lawyer earning that kind of money had been the nominee? Not bloody likely.

Senator Joseph Biden asked Ms. Baird to state how many hours she was away from her child. Would he have asked that of any male nominee?

A sense of proportion was lacking, too, in discussion of the wrong that Ms. Baird admitted. Millions of Americans have used illegal aliens for child care. For the press to speak of a grave mistake was grotesque hyperbole.

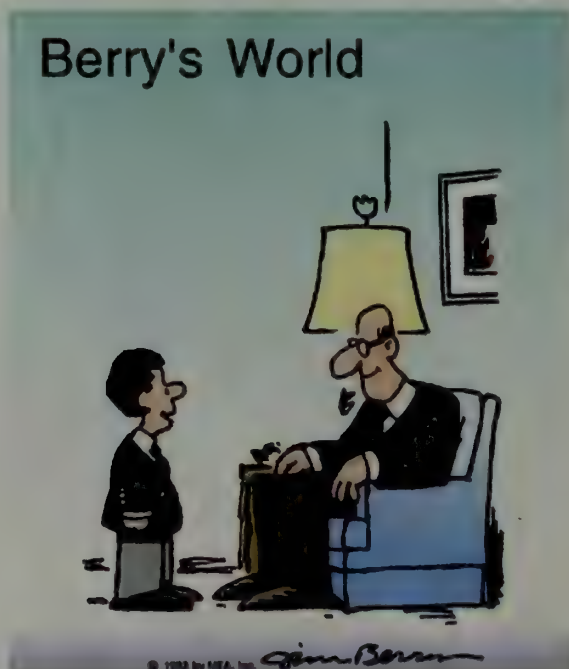
—ANTHONY LEWIS, *New York Times*

Quick Study

DRUGGIST BOB BORING was laughing when he told me about the lady who came into his store to have a prescription filled. She was accompanied by her four-year-old daughter. He handed the mother her medication and gave the little one a piece of candy.

"What do you say to Mr. Boring?" the mother inquired of her child. "Charge it," was the small one's reply. —"Jab's Gab,"

Benton County (Mo.) Enterprise



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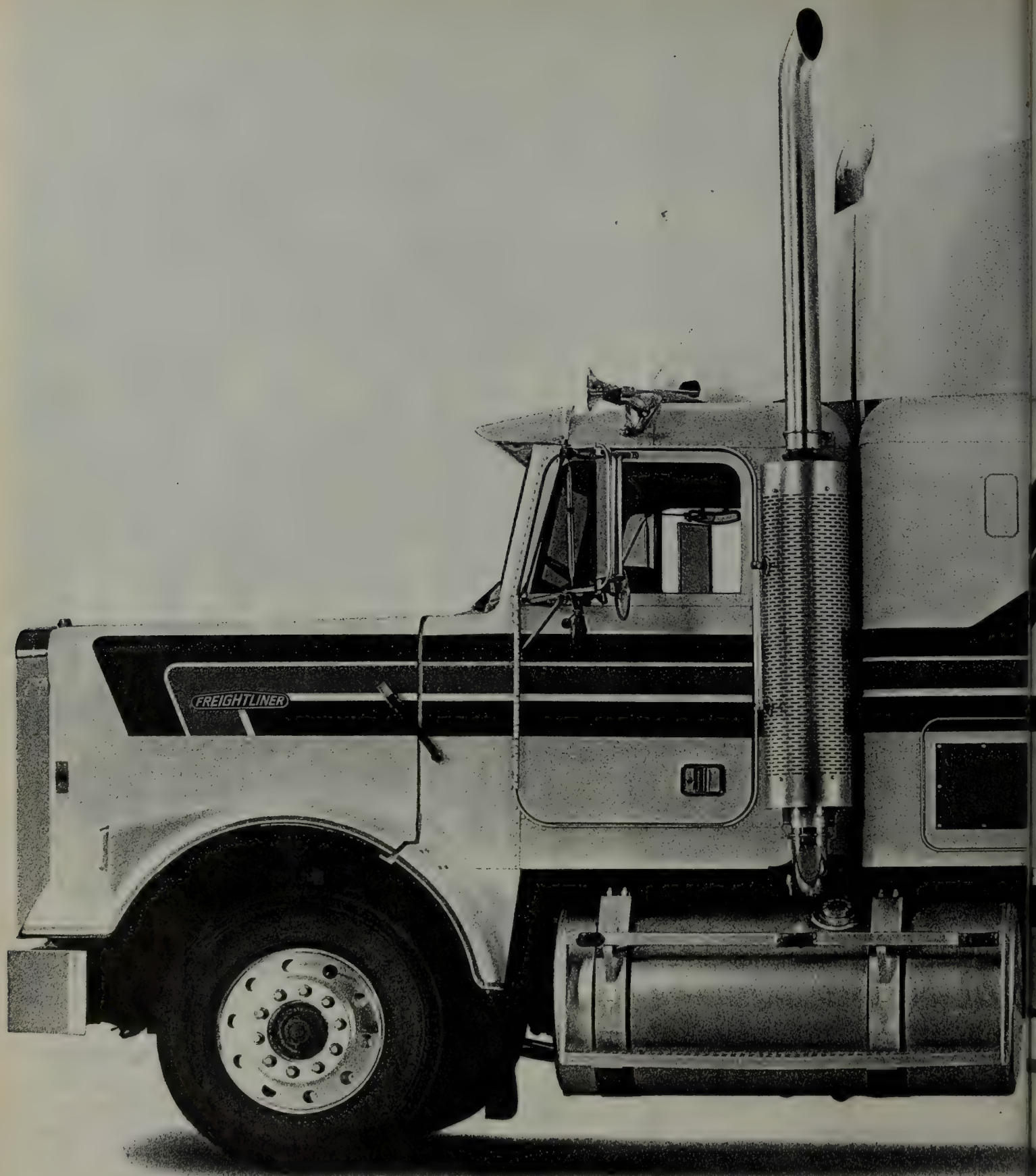
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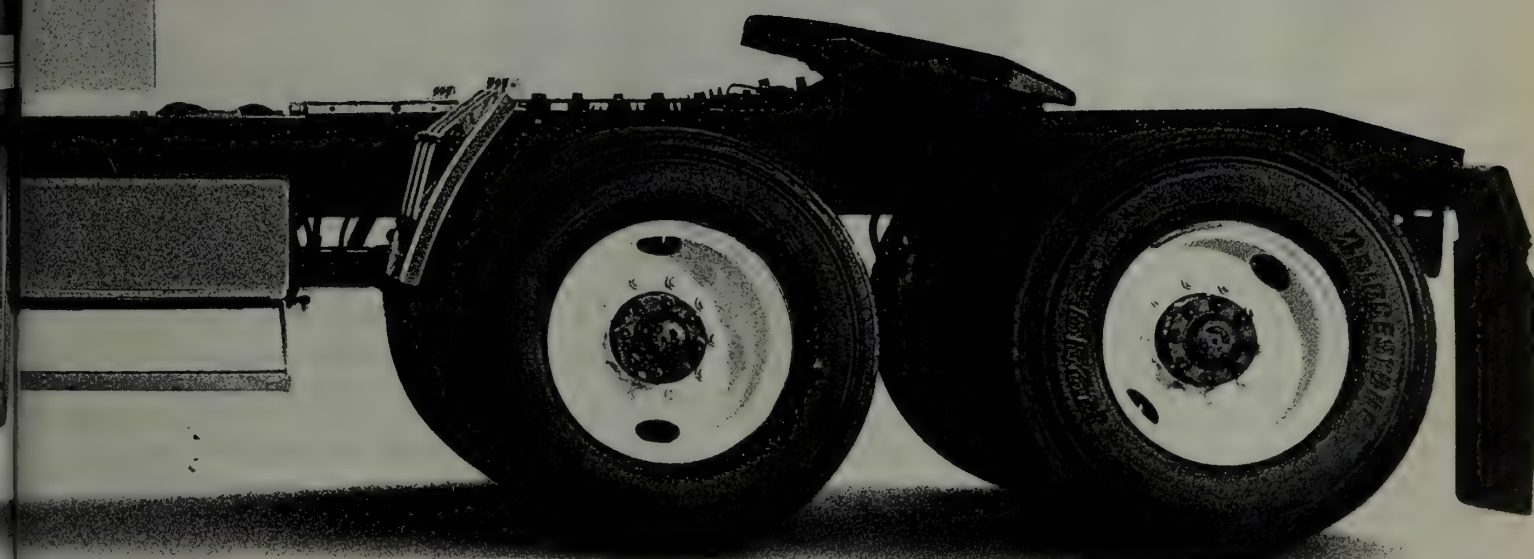
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— NORTH AMERICA —

Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*



PRESIDENTIAL TRANSITIONS

IT SEEMS TO BE generally agreed that this presidential transition was, well, not particularly tidy and is, in fact, still going on. Virtually all of the Bush Administration's policymaking appointees vacated their offices at the request of the incoming Administration, which had apparently overlooked the fact that necessary investigations of new appointees, Senate confirmations and the general settling-in process take several months.

These problems are not endemic to the Clinton Administration; some of these delays are inherent in the standard practice of all our presidential campaigns and transitions. Herewith, a suggestion as to how we could do better:

A most fundamental and necessary change is to recognize that the presidential and vice presidential candidates—the only ones we consider during the long runup to the election and transition period following—are not the only people needed to bring about changes the candidates promise.

It would be better if, as part of the endless primary campaigns, the convention period and the long fall electoral process, we were told from the onset who each candidate's major appointees would be. The public would have a better idea of what the Administration they were asked to vote for in November would look like in January. The planned appointees, along with the presidential and vice presidential candidates, would have a far longer and much needed period of getting used to working together and planning for the appointments of the midlevel officials who actually do so much of any Administration's work.

As it is, a presidential candidate may be persuaded to say in September and October that, if elected, he or she will appoint one of this and one of that to the Cabinet (never naming names). But ordinarily we must wait until late December or mid-January to learn who (if the Senate concurs) will be running the great departments of government and who will, therefore, be the instruments for carrying out the candidate's policies.

How much better it would be if throughout the campaign we knew we were voting not just for Mr. Clinton or someone we perceived as the winner of a

presidential debate or someone who talked vaguely about change and doing better, but that by voting for Mr. Clinton we would have Mr. Christopher as Secretary of State, Mr. Aspin as Secretary of Defense and someone who did not employ illegal household help as Attorney General. This would enable the appointees to start assembling a team, learning about the more immediate issues requiring decisive action and preparing for confirmation hearings. These vital tasks would be spread out over several months instead of being compressed into a week or two in January, when the principal preoccupation seems to be the inaugural parade and inaugural balls.

This is by no means a novel suggestion. It is the standard practice in Great Britain, where the government has its slate of ministers and the opposition has its so-called shadow ministers—those who would run the departments in the event the opposition wins. It is quite true neither list is or can be immutable. The ministerial team can, of course, be changed, and the “shadow” ministers may not always succeed to office

should the opposition win, but at least the people have, prior to the time they vote, a better idea of what an entire government would be. Were this done in the U.S., we would be able to make informed decisions, and the postelection process would certainly be far smoother and more effective than our most recent transition has been.

Of course, many candidates would prefer *not* to name their principal appointees during the campaign because it might give people a reason to vote against them. But, as of this writing, most of the positions of deputy secretaries, assistant secretaries and their staffs are vacant, relegating what decision making there is to senior and junior civil servants having to act with only the vaguest idea of what the policy direction might be if policy officials were in office.

This is not quite as critical in some areas as it is in others, but it is fortunate that the U.S. is not in the middle of any threatening crisis. (It might be added that one of the reasons we are *not* in the middle of such a crisis is that we still *do* have great military strength—and will have until threatened drastic budget cuts take effect.) ■



President Clinton and his Cabinet:
Is there a better way?

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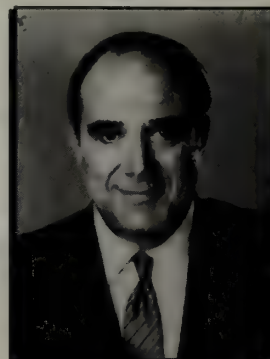
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Good news, bad news and backbone

THERE IS A DARK SIDE to the wonderful news that productivity increased by 2.7% for the whole nonfarm economy in 1992—the best performance in 20 years. So what's not to like? A large part of the improvement has come about because business continues to lay off surplus

Different, and better, this time

Productivity (percent change from previous year)



Source: Morgan Stanley estimates based on Bureau of Labor Statistics data

Given this economic recovery's slow growth, productivity is increasing twice as fast as usual.

workers or is reluctant to add new jobs.

First, though, the best part of the good news. Service sector productivity in the fourth quarter of 1992 rose at a 3% rate. That's not far behind manufacturing's 3.5% improvement.

Surges in productivity in services as well as manufacturing are normal in a period of economic recovery; services saw a two-stage surge in the early 1980s (*see top chart*). But there is reason to believe that what's happening this time is different, says Stephen Roach, a senior economist with Morgan Stanley.

The service sector is increasingly subject to powerful competitive pressure, from within the U.S. but also from abroad. "This has led to a job shakeout that is an inevitable byproduct of market globalization," says Roach. He adds that the productivity increase is about double the rate that would normally be associated with 1992's modest 2% increase in GDP.

Clearly, the service sector is beginning to reap the rewards of cost-saving investments made in high technology during the 1980s. The result can best be seen in such areas as financial back offices—when two banks merge, for example, computerization means that one set of accounting staff can do the work of two.

This gets us to the glass-is-half-empty side of the productivity story. Costs are cut, but so are jobs. Computers allow point-of-sale infor-

mation to be used to eliminate workers who used to manage inventories.

A major disappointment, says Roach, is the lack of productivity improvement so far among the 44% of service sector workers he calls knowledge workers (such as doctors, lawyers, corporate strategists, the media). They still use powerful personal computers mostly as elaborate typewriters and calculators.

The effect of competitive pressure on service sector jobs is more or less identical to what has happened in manufacturing. Workers with special skills are doing fairly well; those without skills are out of luck (*see lower chart*).

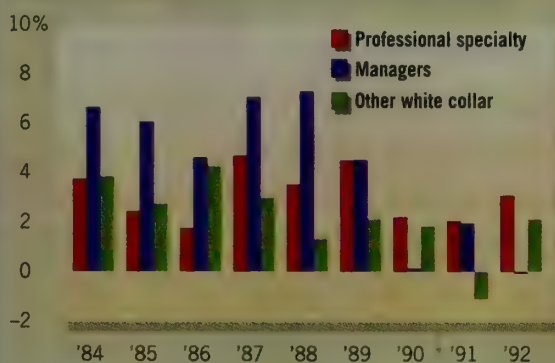
This raises a difficult question for the Clinton Administration, which is hanging its hat on being able to expand the country's employment base. There is the distinct possibility that the unemployment rate will stop falling later this summer, says Marvin Kosters, an economist at the American Enterprise Institute. It could even go up a bit, he says.

How come? The combination of slow GDP growth (under 3%) and improved productivity leading to weak job creation could, says Kosters, coincide with the summer's flood of new entrants leaving school for work.

Such an outcome would lead to inevitable moans from labor unions and the liberal wing of Congress that the anticipated \$20 billion job stimulus package had already "failed." (In reali-

Jobs for the skilled

White-collar employment in the service sector (percent change)



Source: Morgan Stanley estimates based on Bureau of Labor Statistics data

In the service sector, new jobs are being created but mostly for those with skills or qualifications.

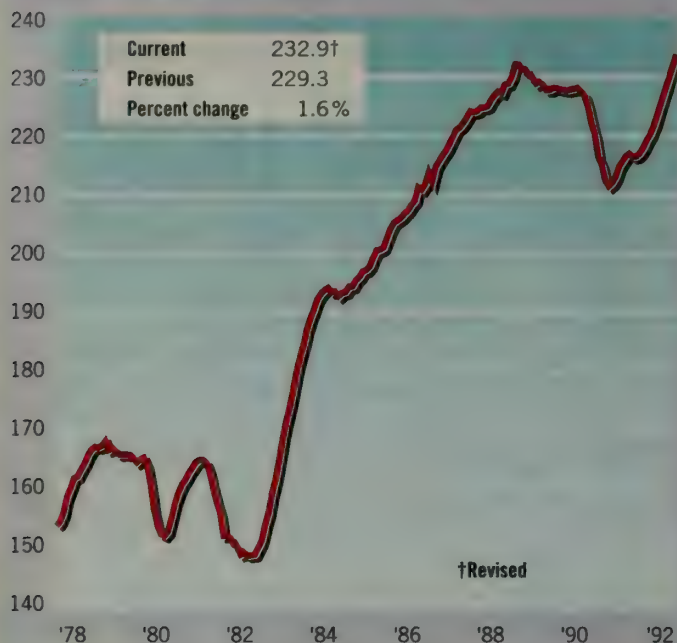
ty, its effect will not be felt until 12 to 18 months after it is enacted.)

It would take considerable backbone for the White House to resist calls for a further, budget-busting job creation package. Is there a backbone specialist in the White House?

THE FORBES INDEX

BY ROBERT ROSENSTEIN

The Forbes Index (1967=100)



While there will be at least two more official revisions, the Commerce Department's first release on fourth-quarter gross domestic product shows the economy growing (net of inflation) at a healthy annual rate of 3.8%. New orders for durable goods increased a robust 8.7% in December from the previous month. The index of leading indicators, calculated by the Bureau of Economic Analysis, rose 1.9%. Another bit of encouraging news: Productivity (as measured by output per hour of labor) rose at an annualized rate of 4% in the fourth quarter.

Other key rates

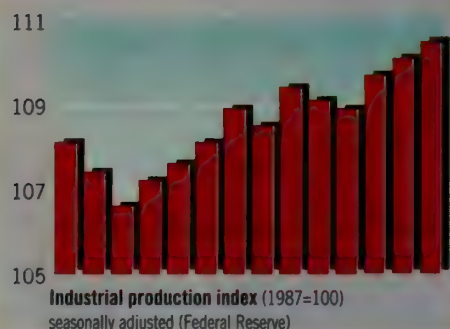
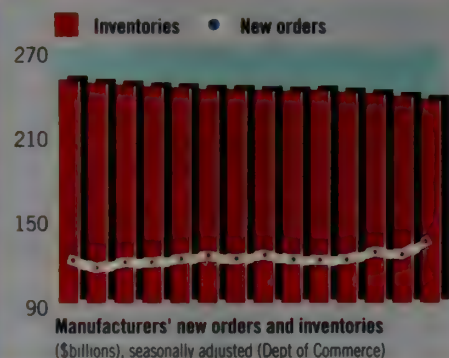
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.0%
Auto sales year to date vs 1992 ¹	Ward's Automotive	4.4%
Index of leading indicators Dec vs Nov	Dept of Commerce	1.9%
Trade balance 12 months ended Nov 1992	Dept of Commerce	-\$81bil
All-commodity producer price index Dec vs Nov ²	Dept of Labor	-0.2%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	3.8%
M2 (3-month change)—annualized growth ³	Federal Reserve	2.0%

¹ U.S.-based manufacturers, excludes imports, as of 1/31/93. ² Wholesale goods. ³ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



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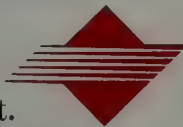
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And maybe that's why AT&T scrambled to catch up, a fact you can find particularly amusing since they had a 20-year head start.

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A few years back A&P looked like a solid turnaround. It looks pretty shaky today.

Too sharp a knife?

By Matthew Schiffrin with Toddi Gutner

FOR A FEW glorious years, James Wood looked like a turnaround hero. Germany's Tengelmann Group hired Wood in 1980 to salvage its 53% interest in the Great Atlantic & Pacific Tea Co., the 1,200-store remnant of what had once been America's greatest grocery chain.

A dour Englishman, Wood had resurrected James Goldsmith's Grand Union grocery chain. Once installed at A&P, he attacked the chain's overhead and acquired smaller regional chains whose costs he also slashed.

Between 1982 and 1990 A&P's net margins tripled, to 1.33%, very respectable in the grocery business. Earnings jumped from a few pennies a

share to nearly \$4 a share, and the stock jumped sixteenfold, to over 60 a share. The controlling shareholders rewarded Wood with compensation worth \$30 million over the past five years. A *Fortune* article in early 1990 called A&P the "beast of the East," saying "[A&P is] now in a position of market power the likes of which [it] hasn't occupied since 1949."

That should have been a warning. Since 1990, net margins have skidded to one-third of 1%. Cash-flow-to-sales margins, at 3.4%, are the worst in the industry. In the quarter ended Dec. 5, 1992, the company reported net income of just \$422,000 on revenues of \$2.4 billion. The stock's re-

cent price: 23¾.

Don't blame this setback solely on the recession. Most of A&P's regional competitors' results have been improving. The simple and brutal fact is that A&P has been losing market share. In expanding, Wood bought regional chains such as Dominion in Toronto, Kohl's in Milwaukee, Waldbaum's and Shopwell/Food Emporium in the East. Each of these chains has a lower share of its regional market today than it had at the time of acquisition by A&P (see chart, opposite). It seems Wood's turnaround was fueled by acquisitions.

Take Michigan. In 1989 A&P paid \$78 million to the Borman family for

Great Atlantic & Pacific Tea Co.
Chairman
James Wood

"When I finish, or when my successor finishes, probably there will be very little left of [the old] A&P."



their 74 Farmer Jack stores in Michigan. Before the merger, Farmer Jack had nearly 23% of the Detroit market and A&P had 12%. Today A&P's combined market share is 28%. It's the same story with Kohl's in Milwaukee and Waldbaum's in New York.

The secret behind successful chains like Waldbaum's and Farmer Jack was the merchandising talent of their entrepreneurial founders—Ira Waldbaum and Paul Borman. These grocers were comfortable in the aisles, prucing up the lettuce. James Wood is more comfortable with computer printouts. "I will admit I am no pre-ender about this merchant business—I am not an American," he says from his office in Montvale, N.J. "If anyone does any merchandising around here, it is not me. I buy companies and I sell them and I lay all the ground rules."

Under Wood A&P is highly centralized. Most of the purchasing for A&P's 1,200 supermarkets spread across 23 states is done from Montvale. "Our buying is done on a mechanical basis by category buying groups downstairs," says Wood. "In each we have an information systems guy, a market person and an ex-Nielsen guy keeping tabs on the markets."

By contrast, most chains like Kroger and Safeway have regional buying offices that keep close watch on demand. Ira Waldbaum used to visit ten stores a day, taste food and talk with customers.

Wood has sometimes used too heavy a hand in cutting costs. At Waldbaum's, for example, Wood now keeps stores open 24 hours a day but has cut back on staff. The cuts show. In 1991 Waldbaum's was cited by the New York State division of Food Safety & Inspection as the worst of all area grocery chains in unsanitary conditions and adulterated food. Last year Waldbaum's improved somewhat but still ranked among the three worst.

Service, too, is suffering. On a recent Saturday afternoon—the busiest time for a supermarket—only 10 of 17 checkout aisles were working at a new Waldbaum's store in Oceanside, on Long Island, the heart of this chain's former stronghold. Customers grumbled. Who likes to spend precious leisure time standing in line?

By contrast, across the street at



A Waldbaum's store on Long Island, N.Y. **Has this once great franchise caught A&P's blight?**

Foodtown, 19 of 20 checkouts were operating and only one or two people were in line. Melvin Weitz, the energetic founder of Foodtown (*FORBES*, Nov. 23, 1992), says he misses the competition he used to get from the Waldbaum family.

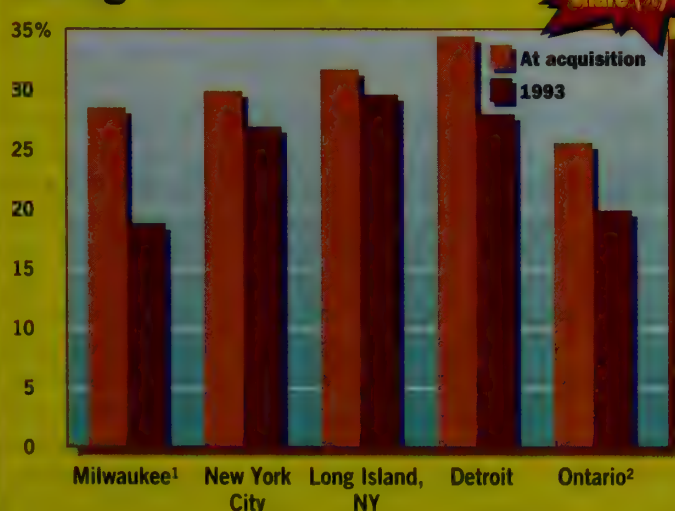
Nor has Wood solved a problem that has dogged A&P for decades. Most of the 625 stores that operate under the A&P name are old and cramped. The small stores account for 25% of the company's \$10.5 billion in estimated 1992 sales. As a result, A&P's 1,200 stores average half the size of new U.S. supermarkets.

Wood plans to close over 180 A&P stores, and he is reportedly trying to

sell some stores in the South. "When I finish, or when my successor finishes, probably there will be very little left of [the old] A&P," says Wood.

But it's fair to ask why, after 13 years, Wood hasn't moved faster on these store closings. With disappointing earnings and with the stock down 60% in a rising market, some stockholders are getting restless. The New York State Common Retirement Fund, a stockholder, announced in February that it would oppose management's slate of directors this year. A&P under Wood looks like an example of the kind of cost-cutting that benefits the bottom line but doesn't do much for the product.

Losing across the board



¹At acquisition uses 1984 data. ²At acquisition uses 1990 data. Sources: Maclean Hunter Media's Market Scope; Canadian Grocer

Acquisitions put A&P on top of these markets, but competitors have gnawed away at their lead.

Wall Street is raking in huge fees by taking the homely home mortgage and hocus-pocusing it into all kinds of weird and wonderful new securities. Watch your wallet!

Alice in Mortgageland

By Laura Jereski

VERNON STRICKLAND, 62, is the highly experienced chief investment officer of the \$3 billion Louisiana State Employees' Retirement System. Since 1987 Strickland has managed \$300 million of its funds himself, investing in mortgage-backed securities. They seemed a good deal because they promised yields much better than ordinary mortgages.

Easy in but not so easy out, as Strickland found when he began unwinding the portfolio last spring. By October he presented his board with a \$25 million loss on the sale of the portfolio, a good part of which was

invested in mortgage-backs.

Strickland was shocked. He knew he was taking risks but believed that he was hedged against them. Strickland has lots of company. Many investors holding certain mortgage-derived securities suffered losses on these last year that ran as much as 40%. Riskless?

Where there is complexity there can be hidden risk, and structured mortgage-backed securities are so complex it sometimes takes a mathematician to explain them. For a stab at explaining how they work see the accompanying glossary below.

For some brokerage houses, mortgage-backed securities are perhaps the biggest moneymaker since junk bonds lost most of their luster. Last year alone, \$388 billion worth of structured mortgage-backs were issued and sold, 70% of them backed by federal agency guarantees.

By turning mortgages into tradable securities, Wall Street made a wider pool of money available for home buyers, thus lowering mortgage rates. That's good. But the unintended consequence was a market of such complexity that it put investors at the not so tender mercy of Wall Street houses. Complexity is putting it mildly: The Federal National Mortgage Association alone has over 11,000 "tranches" outstanding, each a separate security.

Thus, with deft mathematics, Wall Street and FNMA have created a huge unregulated securities market. It has grown from nothing to three-quarters of a trillion dollars outstanding in less than ten years.

The underlying mortgages are backed by first-rate collateral—people's houses—and in most cases by federal guarantees of principal as well. This creates a sense of security among buyers of these mortgage-backed se-

Warning: no easy read

UNLESS YOU'RE A WHIZ at math, you may find what follows heavy slogging. That's fine with the people who peddle mortgage-backed securities: An educated consumer is most definitely not their best customer. If investors really understood how these things work, they'd be less willing to buy them.

Mortgage-backed securities are just that: securities backed by a pool of mortgages. That's the easy part. It gets complicated when the pool is cut into risk-slices and time-slices to create different classes of mortgage-backed securi-

ties. To add to the mystification, The Street uses the French word for slice, "tranche." The pool can be cut into tranches that get interest only or tranches that get principal only and into tranches of varying maturities. A single pool can be cut into as many as 64 tranches.

What distinguishes a pool of mortgages from ordinary fixed-income securities is this: While you do know what the amortization schedule is on the mortgages, you never know whether the mortgages will be prepaid or when. Thus, you could create a mortgage pool with an average life of, say, 7.5 years and an interest rate of 8%. But if interest rates

drop and homeowners refinance, you might end up not with a 7.5-year security but a 4-year security.

So what? Read on.

About 70% of any given pool of mortgages may be packaged into securities that will behave like bonds; they will have a relatively predictable yield and maturity. These so-called planned amortization classes, or PACs, are designed to look like bonds, and you can buy them in just about any maturity you like—two-year, three-year, five-year and seven-year, for example. Using them, a bank or pension fund could match its assets and liabilities. These securities yield a thin spread over

Treasuries, perhaps 80 basis points. Unless mortgage prepayments hit epidemic proportions, these securities will remain outstanding pretty much as promised. In the language of The Street, they stay within their "bands."

But now we get to the really speculative stuff, the so-called support tranches or slices. These are covered by the 30% of the pool not covered by the PACs. Cynics refer to the support tranches as "some one else's nightmare." These bear the prepayment risk for the whole pool. What that means is that if homeowners pay down their mortgages faster than the assumptions built

curities. Buyers sometimes forget that a mortgage-backed security is not a mortgage. There is no recourse for investors to the issuer, there is no management to hold accountable for disastrous results, there are no covenants to protect the holder.

Who are the magicians who transform the ordinary into the extraordinary? Kidder, Peabody is the biggest, with \$54 billion of agency-backed securities underwritten last year. Next in line are Bear, Stearns (\$32 billion), Lehman Brothers (\$28 billion), Salomon Brothers (\$27 billion) and Goldman, Sachs (\$24 billion), according to figures published by Inside Mortgage Securities.

Profits made by these houses from underwriting, trading and holding mortgage-based inventory can only be guessed at, but they must be huge. Warren Spector is 35. Last year Bear,

into the securities call for, your five-year security may become, say, a three-year security.

What's so bad about early prepayment? Here's why Wall Street pays huge salaries to smart young computer scientists. The cash flows from the pools of mortgages are defined as areas under the prepayment curve. That curve changes shape with interest rates, bulking up in early years if interest rates fall, or flattening out if interest rates rise.

Think interest rates will rise? Then you'd probably like an interest-only strip (IO), which will pay you only the interest paid on the underlying bonds. If the mortgages stay out-

standing longer than expected, your payments stream lasts longer. If, as happened last year, prepayments surge, holders of interest-only strips get killed. Instead of receiving the flow for, say, five years, they get it for, say, two years. You can easily lose 40% to 50% of your capital that way. If it makes the victim feel any better, Wall Street refers to what happens to him as "double-digit negative yield."

Think interest rates will fall dramatically and stay there? Then you might be interested in a principal-only security called a Super Principal Only. With this piece of paper you are entitled only

Stearns paid him \$12 million as co-head of its mortgage desk. His counterpart at Kidder, Michael Vranos, is rumored to have done at least as well.

The big firms tend to pass the dicier tranches, the so-called other people's nightmares, to regional firms like Money Management Analytical Research (MMAR) and Westcap in Houston. The big houses would as soon not have to answer to their clients when some of this stuff explodes. The

speculative parts of the deal, high-profile buyers like Louisiana's Vernon Strickland.

Strickland's first inkling of trouble came soon after he told the fund's trustees that he planned to retire. When he tried to sell some of his "nightmare" tranches he discovered that the spread between bid and asked was as high as ten percentage points. Ten-point spreads? Isn't the mortgage market the second most liquid

regional houses sell to insurance companies, banks and thrifts, and pension funds. Yes, and to individuals wishing to speculate on interest rates; individuals bought maybe \$13 billion last year.

Since these risky remnants, benignly called "support" tranches—more cynically "nightmares"—are hardest to sell, they drive the whole deal; it's where the loot lies. That's why Wall Street loves a willing buyer for the

called floater, which moves with short-term floating rates, and an inverse-floater, with a yield that increases dramatically when floating rates (Libor, for example) fall.

There are times when even the mainstream PACs don't behave the way they are expected to behave. Last year, with interest rates way down, prepayments so vastly exceeded expectations that many PACs broke through their bands; it was not uncommon for a security with a five-year average life to become a three-year. Customers suddenly had to scramble to reinvest cash at much lower rates.

So much for planned amortization. —L.J. ■

Alice's Adventures in Wonderland/Ganger



market after Treasuries?

Certainly not the nightmare part of the market. Since Wall Street profits from complexity, bankers have worked hard to make mortgage-backed securities increasingly complex. Several years ago deals were sliced into a handful of tranches; last year mortgage-backs were sold with as many as 64 different tranches of securities—which is why Fannie Mae alone has issued tens of thousands of tranches.

Cash flow to any single tranche, even the more stable ones, depends on the structure of the whole deal—how the cash flowing into the mortgage pool gets divided. Without knowing the formulas that created the other securities in the deal, an investor can't even guess how his slice might perform if prepayments change.

Says Michael Scanlon, a marketing analyst with Global Advanced Technology, "It's taken me as long as a week to reverse-engineer some deals." And he's an expert.

Result? Whopping spreads. Traders at Daiwa Securities found last year they could buy inverse floaters for 10 to 11 points less than the "fair market value" indicated on their computer models.

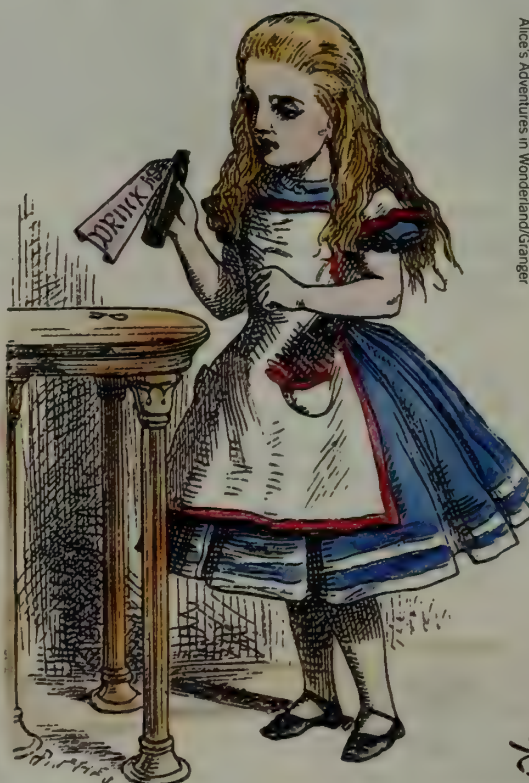
"This market is a great innovation—for Wall Street," says Robert Phelan, director of market risk products at Fitch Investors Service. "Wall Street has taken a triple-A product and injected market risk into it. People don't understand that at all."

In the mortgage-back market there are no prospectuses, no offering circulars to speak of. Centimillion-dollar deals are sold in a matter of hours on the basis of a single page of cryptic code, known as a term sheet. The offering circular for the whole pool often doesn't appear until a month or two after the deal has been sold, and then it is written in math-speak, not in English.

Big portfolio managers try to compensate for lack of information with computers to run the complex simulations needed to price mortgage-backs accurately. BlackRock, which manages some \$7 billion in mortgage-backs for institutions and individuals (see p. 136), must devote a

third of its professional staff of 65 to running models. Global Advanced Technology sells software for analyzing mortgage-backs, but its software is used by only 100 institutions; it costs \$18,000 a year per installation.

Even computer power is no guarantee of precision. "These software programs are like souped-up motorcycles turned over to teenagers," says Robert Phelan. When Fitch looked through a dozen portfolios last year, including one with over \$11 billion in mortgage securities, it found that not one manager could price all of his



Alice's Adventures in Wonderland/Granger

securities accurately.

Vernon Strickland had no computer models. He didn't even have a computer. He relied on outside research to mark his portfolio to market daily. Those prices were great—as long as he didn't have to sell.

But by midsummer the value of his interest-only securities, 25% of the portfolio, fell by half. What had happened was this: Homeowners were refinancing their mortgages much faster than expected. Strickland owned many tranches that were entitled only to interest from the pool of mortgages. When the pool shrank, there was much less interest coming in than he'd expected.

Panicking, his board of trustees insisted he liquidate the whole mortgage portfolio. "I sold the securities

that were easiest to sell," Strickland conceded to an associate. These were not the interest-only "headaches" but the principal-only tranches—which gained in value as interest rates dropped. No one from the Louisiana State Employees' Retirement System would confirm any of the details.

Such volatility may be poison to buyers of the mortgage-backed securities, but it is nectar to the sellers. Volatility forces investment managers to trade hyperactively to constantly rebalance their portfolios. It was not untypical, for example, for Louisiana's Strickland to turn over his portfolio 400% a year.

Strickland wasn't alone: In December, Georgia's insurance commissioner seized \$128 million Coastal States Life Insurance Co., partly because interest-only strips and inverse floaters made up some 90% of its assets.

How much longer can such shenanigans continue? By all indications, for quite some time, as long as interest rates stay low and investors are charmed by Wall Street's promise of tailor-made securities. So what that last year's concoction of interest-only strips and inverse floaters proved disastrous? This year's hot product is a principal-only bond targeted for insurance companies. The catch? If interest rates do rise, prepayments may slow so significantly that investors see the cash flow they had counted on slow dramatically.

Making the mortgage-backs even more volatile than formerly is what Wall Street calls "the *USA Today* effect." When mortgage rates fall, the news makes the headlines and the tube, and homeowners are trigger-happy to refinance. Mortgage holders who used to wait for a 2% drop in interest rates now refinance on a half-point move. Lotus even has a new program, Lotus 1-2-3 for Home, to help homeowners figure out when to refinance. Homeowners are likely to be as sensitive to rising rates as they have become to falling rates, so refinancing could well screech to a halt on even a small rise in mortgage rates.

The moral to this story is so obvious we almost hate to mention it, but here it is: If you don't understand something, don't buy it.

like shooting wars, trade wars often start inadvertently. In getting tough on trade, is the Clinton Administration playing with fire?

Saber rattling

By Richard C. Morais

THE CLINTON ADMINISTRATION seems to be suffering from high levels of testosterone when it comes to trade negotiations. Just days in office, the White House has used tariffs to double the price of European steel and has blocked European Community companies from bidding on U.S. government contracts. "Unilateral bullying," rages Sir Leon Brittan, the EC's commissioner for external economic affairs. U.S. trade negotiator Mickey Kantor claims he is simply retaliating for "intolerable" EC trade policies.

Let's face it, the U.S. is no innocent in trade wars. It was, after all, the U.S. government that triggered an all-out disaster when it raised tariffs with the Hawley-Smoot Act of 1930, prolonging if not causing the Great Depression. The tariff barriers choked off world trade; while world output was 20% higher in 1938 than it was in 1929, trade was 60% lower.

Thus Clinton's protectionist measures frighten Forrest Capie, professor of economic history at the City University Business School in London. His essay—"Trade Wars: A Repetition of the Inter-War Years?"—has just been published by a leading British think tank. It warns that nobody plans trade wars; they are inadvertent, touched off by politicians giving free trade lip service while placating powerful domestic interests.

"This current bout of protectionism really started in 1975, after decades of reducing barriers," Capie tells FORBES. "Since the 1975 recession there have been steady increases, year after year for the last 15 years, in protectionism in the OECD countries."

"There are too many dangerous signs now. I heard a representative of the U.S. government on the radio last

week saying she thought trade wars would be a good thing. The suggestion was that a trade war might have a kind of purgative effect."

Isn't this normal posturing prior to negotiations? "There is a strange mood now. For a long time politicians had to support free trade publicly, even though they quietly handed out protection to their special interest groups. But that caution now seems to have slipped away."

Capie talks calmly as he sits on a pastel couch in his Primrose Hill,



London's anti-protectionist Forrest Capie
"There are too many dangerous signs."

London town house. A cataclysmic trade war seems far from this world of Lawrence Durrell novels and tastefully arranged dried flowers in porcelain vases. But he is convinced the world is at a dangerous juncture without realizing it.

"Let's go back to 1931. After some successful lobbying the British government turned in favor of protectionism. By October there were these cries that the U.K. was having these goods dumped on it. There was an

official investigation, and, yes indeed, the committee found an abnormal quantity of imports coming in. So Britain immediately went out and protected itself with tariffs of 100%.

"I actually analyzed that case and there was no dumping going on."

But what should the U.S. do when it faces discrimination—as with the French on oilseeds last year?

"You have to go back to the basics. To impose protection reduces economic performance. By imposing protection the French damage themselves. [But] it is perfectly silly for the U.S. to say, 'Well, you're banging your head against the wall, so we're going to bang our head against the wall.'"

"You just have to be big enough to accept the disparities. Milton Friedman wrote a neat piece about ten years ago. He said, 'What is this problem of dumping? Foreigners want to send us goods here at ridiculously low prices? Send them. We'll take all we can get.'"

"It is alleged that foreigners are sinisterly waiting to wipe out the domestic industry so they can then charge high prices. But today the world is too big, with too many producers, for anybody to corner the market. And higher prices will give the domestic industry an opportunity to come back."

So Capie frets that the Clinton Administration's get-tough posturing could touch off an old-fashioned trade war: "My glimpse of the American press is depressing. Clinton's election success is in part accountable to an [America first] mood, and that is undoubtedly why he feels emboldened to come out and make this kind of mark in trade. You have to feel very worried when the richest and biggest economy is becoming protectionist. The U.S. could adopt protection and not see too much damage to its economy, if no one else reacted. But history shows other countries will react. And Europe has to react as a whole."

"We've seen enough in the last 18 months to know there will be retaliation, and this will only lead to further declines in world trade. We are already in a recession. To envisage another trade and income contraction, and the downward spiral it could initiate, is very frightening indeed."

You have a window of opportunity to use a quirky rule that undervalues the shares of small businesses.

Carve up your family business

SINCE THIS COLUMN is intended for taxpayers' eyes only and is not supposed to be read by congressional staffers, we can be very blunt about the new Revenue Ruling 93-12 from the Internal Revenue Service: It's a loophole. So long as Congress does not correct the situation, owners of closely held businesses can use the ruling to save a bundle on estate and gift taxes.

The ruling permits a lowball valuation on a small business if that business is chopped into small shareholder stakes. "It means you can make value disappear from your estate but still keep it in the family," says Joseph Newberg, a tax expert with Sullivan & Worcester in Boston.

In issuing the ruling, the IRS is backing down on a position it took on this subject 12 years ago, in which it refused to let family members claim markdowns on shares of small businesses. The IRS is not acting out of generosity; it is simply acquiescing to various court decisions in favor of taxpayers.

Here's the theory behind these "minority discounts." Suppose, against all odds, you decide to sell your family business by selling 20% of the stock to each of five strangers. In all likelihood your buyers will demand, and get, a discount from the full value of the shares, because no one of them will have a controlling interest. So while each share might be worth \$100 if the firm were sold as a whole, it might be worth only \$60 to \$75 when sold in pieces.

Now change things slightly. Say you give 20% chunks of stock to each of five children. Can you claim a haircut in valuing each gift on your gift tax return? Until the recent ruling, the IRS' answer was no. After all,

Jean-Francois Allaux



the family still controls the firm, and can sell out at full fair market value if and when it chooses to do so.

As reasonable as the original IRS position seems to be, it lost out in court. Judges in more than half a dozen cases decreed that family shareholder stakes should be valued as discrete parts rather than as a whole.

In the recent ruling the IRS simply raises a white flag. Discounts may even be allowed on gifts made over time to one person. Say you give one child 20% of your shares every year for five years. If the whole business is worth \$5 million and you can defend a discount of 20%, then each gift is worth only \$800,000.

In effect, your gift tax returns argue that the company's equity is worth \$4 million and voting control another \$1 million; logically, your third gift, putting voting control in your heir's hands, should be worth \$1.8 million. But the IRS will accept an \$800,000 valuation.

There's an estate angle, too. Say Mom dies having given away 65% of her business partnership to her children. The 35% piece that is left can qualify for a minority discount from

estate taxes. State tax collectors generally go along with discounts.

Note: There's still plenty of room for the IRS to challenge the size of your discount, which is usually established by hiring high-priced experts. KPMG Peat Marwick tax expert Rick Taylor says discounts of 25% to 35% are the norm, but he has seen the IRS accept discounts of up to 60%.

An additional benefit to lifetime gifts is that gift taxes, because of the way they are calculated, are substantially lower than estate taxes, even though published rates are the same. Offsetting this advantage to giving rather than bequeathing is the time value of money.

There is another drawback to giving away shares while you are alive: Your heirs lose the capital gain step-up at death on those shares. Assume the business is worth \$5 million but has a cost basis in your hands of \$1 million. Under present law, if you die owning the business, the \$4 million of paper gain permanently escapes income taxation, since your heirs can claim \$5 million as their cost basis. (Estate tax, by the way, is figured on the \$5 million figure.) If you give the business away now, however, your heirs will inherit your \$1 million cost basis. That will someday add a bit more than \$1 million to their capital gain taxes.

Will Congress outlaw the intrafamily minority discount? It's a real possibility. Twice this idea has surfaced: once in 1984, and again in 1987, when the House voted to end it but the Senate refused to go along. Note: The capital gain step-up may also be doomed.

If you want the discount, give now. Congress is desperate to raise taxes so as not to cut spending. —L.S. ■

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TO PRIVATIZE
its communication system
the Venezuelan government
placed a few strategic
long-distance phone call

To compete in the world economic community, a nation must effectively communicate outside its borders. Venezuela's public telephone system, CANTV, was a state-owned monopoly, urgently in need of capital improvements.

The most direct line to outside capital was to go private. Venezuela's plan: sell the phone company to a high-quality, international operator who would supply money, networks and technology. Speed was critical to the transaction. So Venezuela called Lehman Brothers.

PRIVATIZATION WITH A DISTINCTLY PUBLIC RING.

With an impressive resumé in public-to-private conversions, the firm was the logical choice. Working with the Venezuelan government, Lehman Brothers formulated a divestiture strategy with three objectives. First: attract the private capital necessary to upgrade the network. Second: conduct the sale through competitive bidding. Third: complete the sale quickly.

Drawing on extensive relationships in the global telecommunications community, Lehman Brothers brought in bids from high-quality international telecommunications consortia. A controlling interest in CANTV was won by a consortium led by GTE and comprising AT&T, Telefonica de España, La Electricidad de Caracas and Banco Mercantil. As a condition of sale, the consortium agreed to double the network's size in ten years.

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LEHMAN BROTHERS

David Mathis is cleaning up Kemper Corp. The cleanup will be costly and lengthy.

Getting out from under

By Tatiana Pouschine

CHIEF EXECUTIVE for just a year, Kemper Corp.'s David Mathis, 53, had bad news for shareholders last month: The \$3.1 billion (revenues) financial services outfit was taking additional reserves and writeoffs on its real estate investments that would cost \$180 million after taxes—\$3.70 a share.

There may be more bad news. Based in the Chicago suburb of Long Grove, Kemper runs mutual funds, a brokerage business, a big life insurance and reinsurance operation and two property and casualty concerns.

Two of the businesses, brokerage and insurance, have serious problems. Kemper has a \$2.1 billion portfolio of real estate and mortgage loans, mostly in the life insurance subsidiaries, and nearly \$1 billion of that portfolio is ailing. Kemper's mortgage loans on nonaccrual almost doubled last year, to \$420 million; another \$190 million of the loans have been restructured, reducing interest or principal payments; and over \$90 million in real estate loans have been identified as "potential problem loans." Add to

that \$300 million worth of company-owned real estate, much of it foreclosed or restructured properties.

Kemper dealt in a big way with



San Francisco office buildings
\$1 billion invested with one developer, Peter Bedford, built these and other would-be prime buildings. Now come the multimillion-dollar writeoffs.

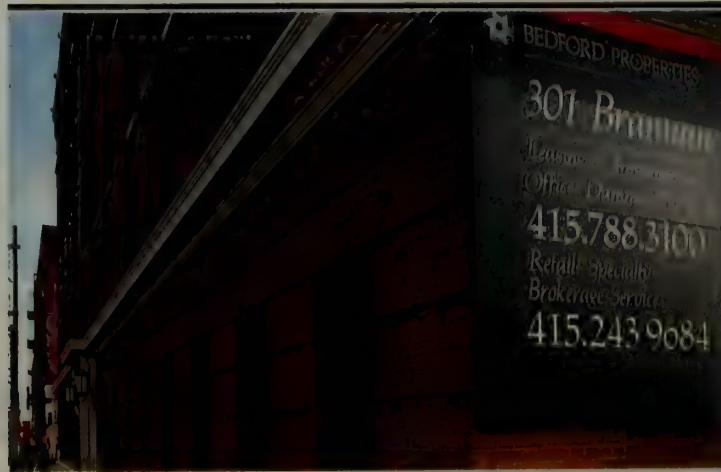
California developer Peter Bedford. Kemper has financed Bedford since the late 1960s. It did well initially, so when they were doing joint deals in the late 1980s, Kemper counted itself lucky. Kemper provided mortgage financing for about 200 of Bedford's projects—an estimated \$800 million worth of office buildings, industrial parks and residential developments in California, the rest in Hawaii, Arizona and Washington. Bedford was blue chip. He sits on the board of Bank-America Corp., which is said to have provided banking for his projects.

But California, Bedford's chief hunting ground, is turning into a disaster. Downtown San Francisco has been hit especially hard. Bedford and Kemper invested in at least four San Francisco office buildings, all of which could require a 40% or 50% discount if the company were to sell.

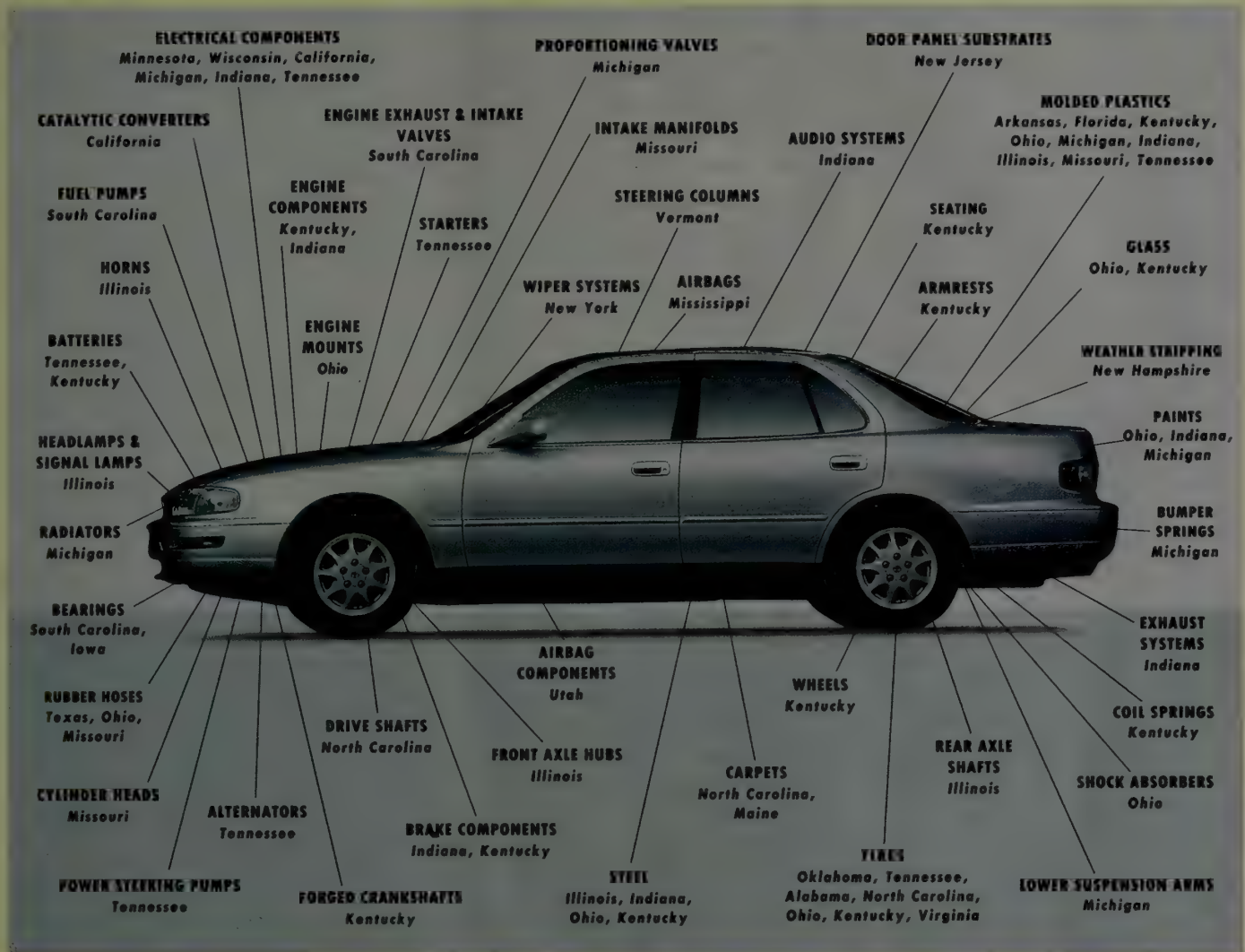
The partners own a business park of some 150 acres in Napa Valley that probably cost them \$10 million to \$15 million, including site improvements, taxes and carrying costs. At current prices, the property would fetch no more than half that.

With dozens of similar properties, operating losses related to the Bedford venture and others are some \$80 million a year. The third-quarter report shows an accumulated loss of \$156 million for Kemper.

A second big Kemper-backed developer is also in deep trouble. Kemper has \$630 million in real estate investments with a Chicago outfit called Prime Group, Inc., run by Michael Reschke, a lawyer in his late 30s. Young Reschke used the funds to develop office buildings and industrial parks in Illinois and elsewhere.



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Take Reschke's 50-story building at 77 Wacker Drive in downtown Chicago. It cost Reschke and Kemper about \$250 a square foot to build. Though it is 90% leased with prestigious tenants, the building today would sell for no more than \$150 a square foot. On 940,000 square feet, that could be a loss of \$90 million. At current prices, the \$400 million or so in total Illinois properties, including some non-Reschke properties, are worth at least \$100 million less than Kemper has invested in them.

If that weren't bad enough, Kemper was generous in granting zero coupon mortgages, at least \$650 million worth. Why? Apparently for speculative reasons. A zero coupon mortgage enables a builder to get by

Kemper was generous in granting zero coupon mortgages—at least \$650 million worth—a splendid tactic only while real estate was rising in value.

with a low cash return on his investment until he can sell the building at a big profit. That was a splendid tactic while real estate was rising in value. In deflationary times it doesn't work. Kemper carries on its books about \$200 million in accrued but unpaid interest on zero coupon mortgages.

Prior to last month's writeoff, Kemper had a nearly \$200 million reserve set up against real estate losses. The huge addition to reserves may not be enough unless real estate recovers rapidly and dramatically.

While Mathis struggles with his real estate problems, he cannot ignore the bleeding at his brokerage operation, Kemper Securities, Inc., which lost nearly \$15 million in the first three quarters of 1992, while Wall Street celebrated record profits. Kemper began buying into the brokerage business in 1982 and has regretted the move ever since; over the decade it has cost Kemper nearly \$200 million.

Run until 1990 as five regional brokerage houses, Kemper Securities' controls were lax, and lawsuits mounted—a \$20 million reserve against litigation accounted for the

1992 loss.

If Kemper thought Kemper Securities would benefit its big mutual fund business, it has been disappointed; only 10% of Kemper's mutual funds are sold by its own retail brokerage.

One of Kemper's jewels is its mutual fund operation—38 funds with assets under management of \$69 billion. The mutual funds and other assets under management contribute only one-fourth of revenues but two-thirds of Kemper's profits, excluding realized investment losses.

But the mutual funds require attention. Data provided by Financial Research Corp. show Kemper is losing market share; at the end of 1988 Kemper's share of mutual fund assets, excluding money market funds, was 4%; at the end of last year, 3%.

In his quiet, methodical way, David Mathis is tackling these problems. Kemper has said, for example, that it intends to reduce its real estate holdings, including the Bedford portfolio. Whether it will accept today's depressed prices remains to be seen.

Last summer Kemper hired the highly regarded John Neal away from Continental Bank Corp. to run its real estate group. It put another new hire, Frederick Stephens, in charge of managing the Bedford-Kemper properties. Peter Bedford retains his equity share, but has lost the management role.

In Illinois, Kemper is reportedly packaging \$750 million worth of assets into a new REIT. (The huge Wacker Drive building apparently will not be included.)

In November Mathis put Kemper's property casualty companies, Economy Fire & Casualty Co. and Federal Kemper Insurance Co., on the block. The sale could produce a gain of \$150 million and help cushion recent real estate writeoffs. Mathis also raised additional capital, selling \$100 million in perpetual preferred stock to Lumbermens Mutual Casualty Co., which owns 38% of Kemper.

Slimmed down to mutual funds and a cleaned-up insurance operation, Kemper has the promise of being a focused, highly profitable financial services outfit. Rid of his problem assets, Mathis can concentrate on the more promising ones, especially mutual funds. But it will take time. ■

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Miami Beach's South Beach has become the new Mecca of Eurotrash: Meet Thomas Kramer.

The odd couple

By Phyllis Berman

SOUTH BEACH, MIAMI BEACH. South Beach in its way is hotter than Saint-Tropez was back in the 1970s. There is no Brigitte Bardot, but gorgeous male and female models are in plentiful supply. Late afternoons and early evenings, oceanfront cafes teem with rich Eurotrash, who later repair to trendy clubs where they drink and dance until the next Florida sunrise.

Thomas Kramer is the life of the South Beach party. He is flamboyant even by Eurorich standards. The German-born Kramer, 35, educated at a fancy German boarding school, is dashing handsome and arrogant.

The Florida papers love to hate Kramer. Last summer he tore down a house on exclusive Indian Creek Island to make room for a new mansion. But he never built the mansion, telling his employees, "I don't want to live surrounded by old people." Gossip has it that he abandoned his building plans after powerful members of the island's golf club hired a private investigator to track him. He later threatened to build a nursing home on his land.

Kramer owns Picasso's "Woman in an Armchair," for which he paid \$2.9 million. He brags that he's negotiating to buy Christina Onassis' chalet in Saint Moritz, and also claims to have offered to charter the *Lady Ghislaine*, Robert Maxwell's old yacht.

He made the papers again last year with a spectacular Halloween-night bash for his nightclub, called Hell. There were fireworks and a naked woman lying on a table with a pool of chocolate on her belly. Guests were invited to dip strawberries in the chocolate, according to attendees. Kramer instructed the doorkeeper to bar homosexuals. The latter protested by plastering Nazi emblems on his 1948 Mercedes and other cars.

All very decadent.

But Kramer has a business side, too.

He has spent over \$40 million buying real estate in South Beach: 5 residential properties on Star Island, 2 properties on Indian Creek Island and 20 apartments in oceanfront South Pointe Towers. According to a Miami Beach real estate agent, he paid top dollar for these properties. And in every case, he paid cash.

Whence came all that cash? Apparently much of it from German demibillionaire Siegfried Otto, 78, one of

the world's biggest printers of currency (*see box*). About two years ago Otto married Bambi, a glamorous woman in her 50s, after a long relationship. Her daughter from a previous marriage, Cathrine, is married to Thomas Kramer. Kramer brags that his wife, when she was going with Siegfried Otto's son Yorck, introduced her mother to the old gentleman. At any rate, Otto apparently helped stake his new stepson-in-law's Florida foray.

How much has Otto given Kramer? Enough to cause a rift between Otto and his two sons, Tilman and Yorck. In October Siegfried Otto threw both sons out of the business where they had worked for years. "They were trying to poison their father's mind against me," says Kramer. One report has it that the sons tried to have Otto declared mentally incompetent. Neither Siegfried Otto, his lawyer in Palm



each nor members of his company's supervisory board were willing to talk about the relationship.

It's an odd relationship: an aging and ailing conservative German businessman and a playboy with a dicey reputation. Even Kramer's friends admit he is a crapshooter. One of them, Ernst Rohrer, a Swiss banker, says of Kramer: "He's a real gambler."

Kramer has shot craps in commodity markets since he was a teenager, and that's where the rest of his money may have come from. He has speculated in such things as gold, grain and currency, reportedly making and losing large sums. He transferred his activities to South Beach early last year, after being virtually ostracized in Germany three years ago. He had set up a blind pool to invest in East German real estate long before there was a ruling on who actually owned it.

Bill Wax

Thomas Kramer, Miami Beach's attention grabber from Germany

Has he gone to Saint Moritz for good or will he be back to build a European-style village in South Beach?

The source

Munich Press



Bambi and Siegfried Otto
Thomas Kramer's angels?

MUNICH'S Giesecke & Devrient GmbH prints currencies, passports, traveler's checks, and stock and bond certificates. It shares these international markets with New York's U.S. Banknote, London-based De La Rue, Paris-based François-Charles Oberthur, and others.

G&D began in Leipzig in 1852. Siegfried Otto came to the firm prior to World War II as a printer-trainee and gained control after marrying the daughter of one of the founders. Though the

company served the Nazi war machine, it refused to print counterfeit British bank notes when the Nazis demanded it; counterfeiting would compromise its integrity. The plants were 80% destroyed in a 1944 bombing, and in 1945 Otto was taken prisoner by the Russians. In 1949 he escaped and began the firm anew in Munich.

In his 50s he divorced his wife and in his 70s married Bambi, Thomas Kramer's mother-in-law (*see story*). Thus began the Kramer-Otto relationship. With Otto's sons out of the business and his health failing, Otto has put his company on the block. It could bring \$500 million. Which could be good news for Thomas Kramer, if he can stay on good terms with his mother-in-law, who, by German law, is entitled to at least 12.5% of the estate. —P.B. ■

Kramer says the endeavor collapsed when negative publicity caused his bank to cut off his credit line overnight. He started over in Florida.

"I am a man with visions," says Kramer, in his arrogant way. "Once I was skiing in Gstaad. I was on the top of the mountain, and suddenly I knew I must short gold, so I grabbed a phone and called my broker, and shorted \$25 million worth of gold. I made between \$5 and \$6 million."

"Another time I had a dream about a burning field. I knew I should buy wheat and corn futures. That time I made millions more. That is how it is with me."

But things aren't so good with him right now. Apparently his stepfather-in-law has a moratorium on check-writing. Clearly short of cash, Kramer has in the past month dismissed at least 68 staffers, including the well-respected developer Kay Statz. He also shuttered his nightclub, Hell. But he still talks of building a \$250 million apartment complex as a play-

ground for the Eurorich in newly glamorous Miami Beach. He envisions a new luxury hotel and European-style village. If only he could raise the money. "Now I am a painter without arms," he moans. "I'm not a developer, but I have a vision of a place where the rich, the cosmopolitan, the people with ideas can gather here in Miami Beach."

Kramer has abandoned Miami Beach, at least temporarily, for what associates say is a money-raising jaunt to Saint Moritz, the hot spot for new Milanese money. Why Saint Moritz? "Let me put it this way," says Swiss banker Rohrer. "In Saint Moritz it's like fishing in an aquarium."

When we asked Kramer about his unsavory reputation in Florida, he dropped his visionary tone, exploding in red-faced rage: "You journalists are all alike. You make no money, so you are jealous of people like me who do." We responded that FORBES reporters are accustomed to dealing with people a lot more solvent than he is. ■

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Whether they want it or not, the citizens of New Orleans are getting a gambling casino. The numbers don't add up, but Governor Edwin "Silver Zipper" Edwards has his own kind of arithmetic.

Fantasyland

By Rita Koselka

IT'S BEEN SAID that Louisianans don't expect good government from their politicians, but they do expect good entertainment. If so, it's a particularly sadistic entertainment they are getting these days from the proposed

certain they would have approved had they been given the chance.

The Louisiana House of Representatives hastily passed the bill by one vote. In the charade, 12 legislators changed their votes after polling was closed. Louisiana legislators often wait to see which way the vote is going, so they can adjust their vote between what the party wants from them and what their constituents want. The house speaker, Edwards supporter John Alario, controlled which lawmakers would be allowed to change their votes. Thus could many legislators both do their governor's bidding and please anticasinio constituents. Smelly? Louisiana politics are seldom fragrant.

A lot of New Orleans citizens were outraged. Never mind, Edwards assured them: The proposed casino would generate a minimum of \$100 million a year in revenues to help cover the state's \$600 million annual deficit. That's not all. New Orleans Mayor Sidney Barthelemy says he expects to get a \$30 million upfront fee from the casino, and projects the lease will generate around \$25 million a year, plus create 5,000 jobs directly and 15,000 indirectly.

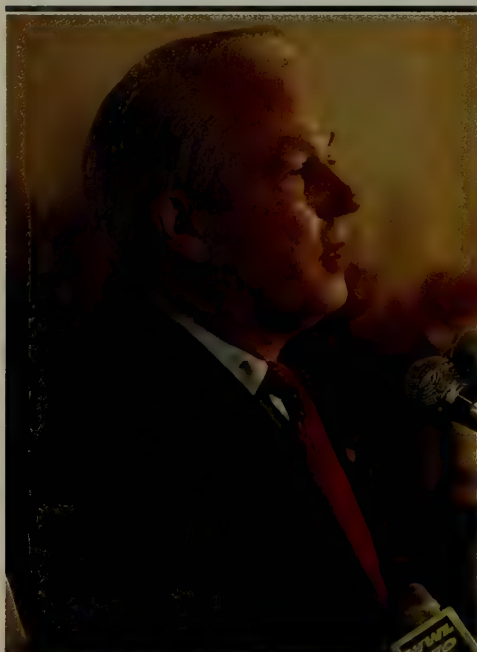
Maybe so, but the project was never seriously debated, and the arithmetic is shaky. Moving fast after the legislature did Governor Edwards' bidding, Mayor Barthelemy selected developer Christopher Hemmeter and Caesars World to develop the project over three rivals.

Hemmeter and Caesars proposed a 400,000-square-foot edifice modeled after the French Empire style. With 200,000 square feet of casino space, it would be the largest gambling joint in the world.

Christopher Hemmeter? He's been

called Mr. Fantasy Island after his hokey Hawaiian resorts, and with the proposed casino he lives up to his nickname. It would cost a staggering \$490 million and be a sort of Bayou Disneyland, with an indoor waterway carrying boats full of gawkers past animated scenes of New Orleans history—just yards from the real French Quarter and the Mississippi River.

Hemmeter, 53, has had a flamboyant career, in the course of which FORBES estimates he built a fortune worth over \$200 million, which has since dwindled drastically. One of his last and most elaborate Hawaiian projects, the Hyatt Regency Waikoloa, was poorly designed, extremely expensive to operate, and has been losing money. He is now trying to sell



Mark Simon/Black Star

Governor Edwin Edwards
A gambler's governor.

casino project in New Orleans.

The lead comic is Governor Edwin Edwards, the 65-year-old French-speaking Cajun, famous for two corruption trials while in office, his high-stakes gambling and the womanizing that *Playboy* says earned him the nickname "the Silver Zipper." Last June the Zipper rammed a bill through the legislature authorizing casino gambling in New Orleans, specifying a single city-owned site a stone's throw from the French Quarter. Neither the citizens of New Orleans nor other Louisianans were permitted a referendum on the proposal. Nor is it at all



New Orleans Mayor Sidney Barthelemy
The casino is a class war issue.

his last interest in the Waikoloa. Convinced gambling was the next growth area, last year he opened two small Colorado casinos, named Bullwhackers, raising the money through a publicly traded REIT, Resort Income Investors.

Hemmeter has a partner, New Orleans native Daniel Robinowitz, who left his family's local tie manufacturing business to become a real estate developer in Texas in the mid-1960s. He went bust in 1975 and by the mid-1980s was focusing back on New Orleans, where he built two shopping centers.

Robinowitz brought Hemmeter to the gambling project by stressing that New Orleans attracts 10 million visitors annually for its food, conventions, festivals and antebellum architecture. But these are native, natural attractions. New Orleans lacked a specially engineered tourist destination. Why not a casino?

Even before the bill was passed, the Hemmeter-Robinowitz partnership started buying or optioning riverfront land around the proposed casino site; if the casino is built, this land will become immensely more valuable.

To get the deal, Hemmeter and Robinowitz made promises almost as fantastic as the proposed building. They project the casino will generate about \$700 million in revenues.

That's more than a tall order; the top-grossing casino in the world today, Atlantic City's Trump Taj Mahal, does just \$400 million. To get to his revenue estimate, Hemmeter projects gross wins of \$3,402 per square foot, compared with an average of about \$2,000 in Las Vegas. Hemmeter projects 20% net margins; his partner, Caesars, one of the best in the business, averages a little over 5%.

University of Nevada-Las Vegas public administration professor William Thompson points out that Hemmeter projects operating expenses to be 42% of gross revenues, compared with an average of 67% in Las Vegas. Thompson also questions Hemmeter's top-line expectations, since the population within 300 miles of New Orleans is only about one-third that around Las Vegas or one-sixth that of Atlantic City, making comparisons with the latter fallacious. Thompson and fellow professor John Mills predict that even if Hemmeter could get the sky-high revenues he projects, the casino would still lose \$64 million a year under more realistic cost assumptions (see chart, p. 65).

Nevada taxes casinos at 6.25% of gross wins. Hemmeter has agreed to pay 18.5%, or a minimum of \$100

million to the state and another 3% to 5% to the city. Hemmeter's line is that without competition his casino can pay a higher tax on the revenues. But its status as a monopoly is not assured. The legislature can open up Louisiana to more casinos with a simple majority vote and the governor's approval. Strong competition exists from Indian reservations, riverboat gambling and video poker machines at bars and racetracks.

Rivals looked at the deal and walked away. John Giovenco, president of Hilton's gaming operations, says that he told the state Hilton wouldn't bid on the project if a \$100 million minimum tax became part of the law. "That was just too big a risk for us to bear," he says. Circus Circus,

faith in their projections. Currently Caesars plans to put up only \$10 million in equity. According to Hemmeter's projections, Caesars should pull out over \$20 million in management fees each year. Hemmeter is not known for putting much of his own money into projects. Salomon Brothers is trying to raise the financing. It faces a hard sell.

Political cynicism abounds in Louisiana, and rumors are rife that Edwards is on the take in the casino project, although no one can offer any proof. Given Edwards' record for scandals and alleged corruption, it is no surprise that the rammed-through project gives rise to such rumors. After all, it was to Caesars World that Edwards ran up some of the huge gambling debts that helped lead to his two federal racketeering trials. He was eventually acquitted.

"Edwards really care about a state revenue gap? Make me laugh," says Republican New Orleans Councilwoman Peggy Wilson. Edwards declined to talk to FORBES.

Ralph Brennan, whose family owns four well-known restaurants in New Orleans, is only one of the many New Orleanians outraged that they were not allowed a referendum on the issue. He even carries in his wallet a miniature copy of the voting tally with arrows showing vote changes. Brennan is not entirely disinterested: He fears the casino will take

customers away from local merchants and restaurateurs, but it is hard to see how the city would benefit from a casino that takes big chunks out of the existing tourist trade. Things are different in Las Vegas and Atlantic City, neither of which would have much tourism without the casinos. No surprise, then, that the New Orleans Business Council opposes the casino.

Suspicious about the project were heightened in late 1991 by a junket taken by Mayor Barthelemy, Senate President Samuel Nunez, City Councilman Lambert Boissiere and their wives. Hemmeter paid for the four-



Developer and self-styled visionary Christopher Hemmeter
"There will be controversy—look at the Sydney Opera House."

Bally and Barbary Coast, all experienced casino operators, also declined to bid.

Many casinos can count on restaurant and hotel revenues to bolster revenues. But Hemmeter and Robinowitz promised they would not compete with existing New Orleans establishments—no new hotels or restaurants on the casino site.

Yet Hemmeter and Robinowitz project a return of about 38% per year on equity investment and 10% to lenders on top of the high tax and lease burdens. But the partners themselves do not appear to have much

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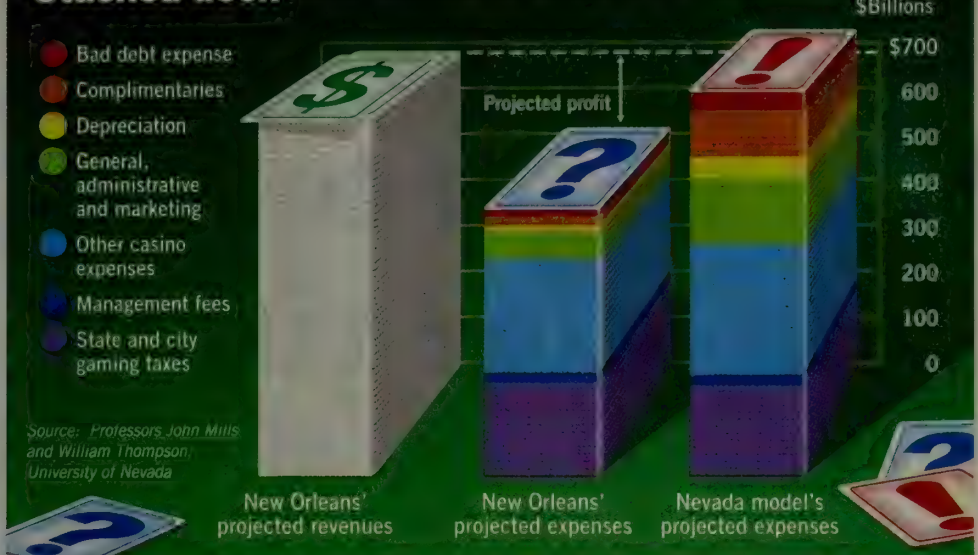
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A study done for the New Orleans Times-Picayune comparing Chris Hemmeters projected income statement with a Nevada casino, given the same revenues.

day all-expense-paid tour of his Hawaiian hotels. Soon after, his partner, Dan Robinowitz, flew Edwards and his twentysomething girlfriend, Candy Picou, to Colorado for a weekend. Hemmeter and Caesars hired two longtime Edwards cronies and one Barthelemy ally, including William Broadhurst (the man who put together Donna Rice and Gary Hart), to work on their behalf. After criticism appeared in the *New Orleans Times-Picayune*, and before being cited by the state's Board of Ethics, the mayor and two other legislators paid back Hemmeter for their trip. Edwards repaid Robinowitz \$825.

Nor, despite repeated requests, has the New Orleans City Council been able to examine a Hemmeter financial statement.

The whole thing is a kind of throw-back to an earlier, unlamented phase in American politics. The state gaming commission, which must license the Hemmeter/Caesars group, only started up in December. By law, all nine commissioners are proposed by the governor and must be ratified by the senate. Four of the governor's initial appointees were not approved or withdrew, even in this largely rubber-stamp process, because background checks revealed previous money problems, including two personal bankruptcy filings.

Do Hemmeter and Robinowitz really believe their extremely optimis-

tic projections? Or are the numbers for bargaining purposes only? It's anybody's guess. In business as in sex, it's an ancient ploy: Promise whatever it takes to land the deal, then forget the promise. Once the casino is built and people are employed, Hemmeter will have the leverage to threaten to close down if the tax rate isn't lowered, more expenses aren't made deductible, or if he's not allowed to open hotel, restaurant or retail operations in the casino.

So stands the comedy. Mayor Barthelemy draws laughs when he says, "the majority of the people of New Orleans would be supportive of the casino." Lacking a referendum, no one will know for sure, but *FORBES* took its own informal cab driver poll. Out of seven cabbies (five black, two white, all males between 35 and 60), only one was in favor of a casino, as against two maybes but probably not, and four distinct noes. None of these men claimed to be morally troubled by gambling. Their objections grew out of long exposure to local politics. They were convinced that only politicians and their cronies would benefit from a casino. Wouldn't it bring them extra fares? No, they felt. It would only bring more congestion in the French Quarter.

Maybe the cabbies were being too cynical, but, given the project's bloated arithmetic and their governor's record, who could blame them?

Little Southwestern Public Service Co. is one of the nation's best-run utilities. If its boss has his way, it may soon be operating on a far bigger scale.

"We've got to take more risk"

By William P. Barrett

IT'S A TRUISM in the electric utility industry that the efficient operators get penalized and the inefficient ones get rate increases. Which is why \$749 million (fiscal 1992 revenues) Southwestern Public Service Co. could soon be a victim of its own success.

The little Amarillo, Tex.-based utility, known by its initials, SPS, sports the second-highest five-year return on equity—15.9%—of the investor-owned electric utilities (*FORBES*, Jan. 4). The company sells electricity for about 20% below the national average per kilowatt-hour—and almost 40% below some of its neighbors. SPS residential customers pay 6.5 cents per kilowatt-hour, compared with Con Edison's 13.9 cents. The chairman and chief executive is Bill Helton, 54, who joined the utility right out of high school as a ground crew lineman. SPS gets so few customer complaints that Helton has a listed home phone.

SPS serves economically ailing parts of Texas, New Mexico, Oklahoma and Kansas, covering a region larger than New York State with barely 2,000 employees. It has little debt for a utility and pays out 95% of its earnings as dividends.

How does SPS stay so lean? Instead of getting into the costly and politically sensitive nuclear business in the 1970s, SPS built plants that used abundant, relatively clean low-sulfur coal and locally produced natural gas, avoiding expensive environmental costs. When other

utilities were adding generating capacity in the 1980s or diversifying into unrelated areas like real estate, SPS stopped expanding and stuck to basics. It set up an in-house engineering department to design power plants for others as well as for SPS, and operates it at a profit.

SPS is just plain chintzy. Rather than wasting money on constructing a fancy landmark headquarters, it rents

space (\$10 a square foot annually) in a downtown bank building. Thanks to \$93 million of overfunding, SPS hasn't added to its pension plan since 1986.

Helton thinks he can create some useful leverage for his shareholders by practicing his lean operating style on a larger scale. He has proposed that SPS take over bankrupt El Paso Electric Co. He hopes to buy El Paso's \$1.6 billion of assets at a substantial discount, financing the deal by selling high-rated SPS debt; El Paso's shareholders could be all but wiped out and bondholders could take a big haircut. Helton is also eyeing several financially troubled electric co-ops along his service boundaries. And he hasn't ruled out making a play for troubled Public Service Co. of New Mexico, especially if its dire financial shape forces a reorganization.

Helton has already made a deal to put up \$10 million to build two power generators in South Carolina that will run on municipal waste, using innovative technology that, Helton acknowledges, involves risk. But, he declares, "We're not a dyed-in-the-wool central power static utility."

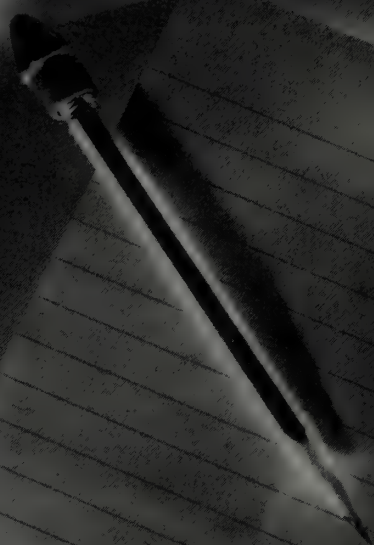
Of these moves Helton says: "We've got to take more risk"—but not outside of electricity. Why this need to expand? Some think the industry could be heading for near-term tough times after riding high for a while on low interest rates, fuel and labor costs. Already SPS' annual growth is down from a heady 5% in the mid-1980s to way less than 2% now. Then there are Texas' politically attuned utility regulators. Do they lavish praise on this model utility? Not very often. In fact, Texas regulators are pondering whether to force on SPS a third rate cut in ten years. They don't like that nice return on equity, although the customers aren't complaining.

At a recent 32, SPS yields 7% and sells for about 13 times expected earnings for fiscal 1993 (which ends Aug. 31) of \$2.45 a share. If Helton's expansion plans bear fruit, SPS could turn into a growth stock as well as an income stock.



Bill Helton of Amarillo's Southwestern Public Service
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Fairfax County, Virginia. The 21st Century Is Here.

Adding 1 million demobilized soldiers to Russia's already huge army of unemployed confronts Boris Yeltsin with a situation not unlike that which preceded the rise of Nazism in Germany.

Red Army scare

By Paul Klebnikov

ON A SNOWY afternoon in Moscow last month, in a half-completed building belonging to the Institute of Aviation, three dozen former Soviet Army officers, surplus to Russia's greatly reduced military needs, joined the capitalist system. They were handed diplomas certifying they had completed a four-month course in marketing and business administration.

It was a grand event. Banquet tables were laden with vodka, champagne, fruit and hors d'oeuvres. One of the graduates, Lieutenant Colonel Alexander Lanskoï, had landed a management job at a Moscow lumber company. He was in an expansive mood: "In today's conditions, we officers are the least corrupted and the most practical social group. We will help build business in Russia!"

But not all his fellow discharges face so hopeful a future. Estimated at about 2.5 million men today (versus 1.8 million men and women in the U.S. armed forces), the Russian Army is supposed to shrink to 1.5 million by the end of 1995. In 1993-94 alone, 76,000 officers are scheduled to be laid off; in 1995-96, a further 126,000. Most will be retired without pension.

"To be an officer used to be a post of the highest prestige," says Lieutenant Colonel Grigoriï Ivanchenko, recently demobilized and a graduate of the government's business training program. "Now what are we supposed to do, become janitors or night watchmen?"

What will they do? "It's a live grenade spinning at our feet," says Navy Captain Valery Baranovsky, who is one of those responsible for officer retraining at the Ministry of Defense. Captain Baranovsky remembers what

happened when imperial Germany collapsed after World War I and loosed hordes of jobless, angry ex-soldiers on a depressed economy. Joining with organizations like the Stahlhelm and freelance nationalistic armies like the Freikorps, armed bands roamed the countryside, deposing local governments and fighting communists, Poles or anyone else who seemed to threaten German honor. They formed the backbone of the early Nazi Party and paved the way for the Third Reich.

In Russia a growing number of demobilized servicemen have already been showing up in various shadowy paramilitary roles. Many professional soldiers have hired themselves out as enforcers for the crime syndicates that are becoming a blight on Russia's struggling business sector. In the bloody ethnic wars in the Caucasus, several thousand Russian soldiers are working as mercenaries for various sides; Russian military commanders have been selling guns, tanks and even aircraft to the regional warlords.

Disgruntled soldiers are already influencing Russian politics. Last July Russian President Boris Yeltsin and his foreign minister were preparing to leave for Japan to discuss, among other things, the Kurile Islands dispute. But on the eve of their departure, the Russian General Staff circulated a harsh memo rejecting out-of-hand any territorial concessions to the Japanese. Feeling the nationalist pressure, Yeltsin canceled his trip.

There have been other military challenges to Russia's struggling democracy. Last October Russian military commanders in the Baltics unilaterally refused to continue their withdrawal from the republics. They were

Officers on parade in Red Square

Since the 1991 coup, local commanders have increasingly shown open defiance of the government's orders.

Troops withdrawing from Eastern Europe
A new generation of entrepreneurs? Says one officer: "We will help build business in Russia!"

Christopher Morris/Black Star



supported by Russia's Ministry of Defense, now dominated by young "fighting generals" who cut their teeth in Afghanistan. Yeltsin soon caved in and let the troops stay in the Baltics. Informally, the withdrawal has resumed, but at a snail's pace.



Major General Alexandr Lebed is commander of the Fourteenth Army in Moldova, where hundreds of people were killed last year in ethnic fighting between pro-Russian and pro-Romanian groups. Lebed has openly defied Yeltsin's orders to withdraw the Fourteenth Army from Moldova. There it stays, actively aiding the turbulent region's Russian-speaking population.

Many Russian officers and ex-officers have joined paramilitary cossack associations. A caste of soldier-farmers with traditions going back centuries, the cossacks were largely liquidated by the Bolsheviks in the Russian Revolution. Now the caste is recruiting again all across the former Soviet

Union, from southern Ukraine to the Chinese frontier.

Boosting their forces with demobilized soldiers and their equipment, the cossack groups claim a total membership of 4 million. Most cossack associations have so far avoided national politics. But with 25 million Russians living outside the borders of the Russian republic, it comes as no surprise that freelance cossack groups are starting to cross borders to defend Russian-speakers in other ex-Soviet republics.

Can all this energy and anger be channeled into more productive uses? There's reason to hope. Says Ivanchenko, "We officers will help raise moral standards in business. We are

good managers because we're reliable and disciplined. An officer's word is his honor!"

Mark Mariska, an American businessman who wholesales Avon and Kodak products in Russia, prefers to hire veterans of the Afghan war—Afghantsy. Says Mariska, a 48-year-old Vietnam veteran: "The Afghantsy are an emerging managerial and entrepreneurial class. . . . I've been working [in Russia] for five years, and I haven't come across anything approaching their work ethic and business ethic."

There's a historical irony for you: A war that helped bring down the Soviet Union may have provided a generation of free-enterprise pioneers. ■

Casinos are popping up all over, Wall Street is pumping up gambling stocks, legislators are already spending anticipated revenues from gaming. It's time to leave the table.

Snake eyes

By Rita Koselka and Christopher Palmeri

"I'D TELL ANYONE who was thinking of opening their community to casino gambling to have his head examined," sighs Jack Hidahl, the city manager of Central City, Colo. Why the long face? Central City opened its doors to casino gambling in 1991, and since then the city's tax revenues have increased from \$350,000 to \$6.5 million a year.

Yes, but there's another side to the

story. Central City's costs to support its new industry—for more cops, building inspectors and city planners—have also soared. Bottom line: Central City's debt has ballooned from \$500,000 in 1988 to \$20 million today. Hidahl still believes it was the only way for Central City, a virtual ghost town, to survive. But in the meantime, the city has run amok.

Casino gambling is now legal in

some form in 20 states, up from just 2 in 1989. And 70 Indian reservations have, or are building, casinos. But like compulsive gamblers who refuse to see that the odds are always against them, state legislators, Wall Street and bank lenders all are ignoring the mounting evidence that the gambling bubble is nearing the bursting stage.

For example, Iowa was the first state to legalize riverboat gambling in 1989. To allow for some sin but not too much, the state put in tough restrictions limiting the size of an individual bet to \$5, and any one person's losses to \$200 a night. It restricted the floor space permitted for gambling to one-third of the boat and required the boat to leave the dock for two-hour cruises during most of the year.

One of the first entrepreneurs to obtain an Iowa riverboat gambling license was John Connelly, a blustering salesman who has run dinner cruise lines in Pittsburgh, New York City and St. Louis. "I'm going to use



Bevil Knap

President
Riverboat
Chairman
John Connelly
**Telling Iowa
politicians to
change the rules
or he's going
sailing.**

his key to unlock the dreams that you, the legislators, the mayor and council, and the people of Davenport have had," promised Connelly as he turned the key to his new casino riverboat in April 1991.

Instead, he opened a Pandora's box. By June of that year Iowa had five boats plying the Mississippi. They generated more than \$22 million in taxes through December of 1992. But competition soon kicked in. Worried about losing potential tax revenues to Iowa, Illinois legalized riverboat gambling in 1990. Iowa's restrictions gave Illinois boats—which have no betting or floor space limits—a big advantage.

Last March a beautiful new gambling boat was launched in Rock Island, Ill., directly across the river from Davenport. Revenues on Connelly's boat dropped 27% for the six months ending in August of last year. Profits fell more than 30%. Naturally, Iowa's tax revenues from gambling have begun to decline.

Now Connelly is telling Iowa's politicians that unless they relax the state's regulations, he'll float his riverboat downstream to some place like Mississippi. Addicted to their new stream of revenues, the politicians will probably let Connelly have his way with them. So much for all those well-intentioned rules designed to legalize gambling but not the abuses that usually accompany it.

"We're in a race to the bottom with each state requiring the stakes to be raised and taxes lowered," says Iowa state representative Robert Rafferty. "We're all now competing for a lower class of gambler, the ones who can't afford it."

Further west, in Colorado, of the almost 100 casinos that have opened in the state since 1991, 33 have already been bought up by competitors or closed down. Some 50% are probably losing money.

Wall Street, never immune to fevers, is delirious over gambling-related stocks. Promus, Circus Circus Enterprises and Mirage Resorts, all experienced casino operators, have seen their market values increase by anywhere from 30% to 130% in the last year. Those are real firms with proven records. By contrast, shares in Lyle Berman's Grand Casinos (FORBES,

How Lowell Weicker said no to gambling



Connecticut's Governor Lowell Weicker

CONNECTICUT Governor Lowell Weicker is a vocal opponent of casino gambling in his home state. "If you lie down with dogs, you get up with fleas," has been his standard rebuttal. But the pressure on Weicker has mounted.

Cities such as Bridgeport have teetered near bankruptcy, while the Foxwoods Casino on the Mashantucket Pequot Indian reservation has been minting money since it opened a year ago. Casinos were proposed in Bridgeport and Hartford.

But Connecticut's Indians were not allowed to

have slot machines without state approval—and the slots are the most profitable part. Moreover, a casino in Bridgeport or Hartford would divert valuable New York City customers away from the Indians' more distant casino.

So Weicker and the Indians cut a deal. Weicker gave the Indians a monopoly on slot machines. In return, the Indians will pay the state around \$100 million a year starting next year, or about 25% of slot machine revenues. Weicker has earmarked the money for the state's municipalities. —R.K.

Aug. 17, 1992) have jumped 70%, to a recent price of 23¼, since June, even while one of the firm's underwriters was reducing its 1993 earnings estimate from \$1.50 to 40 cents a share.

In December, John Connelly floated stock in his President Riverboat Casinos at \$18.50 a share. It traded recently for 42¼, valuing his 50% of the company at more than \$190 million. President's revenues for the first three quarters of this fiscal year came to \$70 million.

Waiting in Wall Street's wings are Gaming Corp. of America and Argosy Gaming Corp., two more gambling companies that are expected to go public in the next few weeks.

Sometimes the states try to get directly involved. When this happens,

things generally take a distinct turn for the worse.

Example: New York's six regional Off-Track Betting Corp. entities, which run offtrack betting in the state. The New York City OTB barely broke even in 1992, but shutting it down is politically nonviable. OTB employs too many people, many unionized—over 1,500 in New York City alone. As quasi-public employees, they are entitled to pensions after 20 years. What started as a revenue source may soon degenerate into a moneylosing bureaucracy.

Even lotteries are hurting. Tom Hantges of USA Capital, a Las Vegas investment firm, reports that as lotteries have spread to some 36 states, lottery revenues are declining in over

Biloxi, the next Las Vegas?

Company	Price			Sales (\$mil)	—Earnings per share—		Market value (\$mil)
	recent	—52 week— high low			latest 12 mo	1993 est	
Casino America	17½	22¾	9¾	NA	\$0.39	NA	\$101
Casino Magic	21	25½	8¾	\$2.2	NA	\$1.50	176
Grand Casinos	23¼	26¼	10¾	7.1	0.24	0.40	340
Players Intl	10¼	13¾	2½	23.6	(1.01)	(0.44)	85
President Riverboat	42¼	50¼	21¾	70.0	NA	NA	384

NA: Not available.

Sources: Value Line and IBES Inc. via Lotus One Source.

Wall Street has bid up the stocks of these young companies, all hoping to cash in as gambling moves to nontraditional locales.

a quarter of them.

No player is immune from competition. According to consultant Eugene Christiansen, when Atlantic City opened up to gambling in 1978, Las Vegas casinos' revenues, which had been growing at 15% a year, slowed to just 4% a year, until a massive investment in rebuilding Las Vegas' casinos got growth going again.

The essential fact about gambling is this: To generate significant new tax revenues, a community must attract tourists from other communities, as Las Vegas does. "It only works if you can import gamblers," says University of Nevada-Las Vegas public administration professor William Thompson, a specialist in gambling. "Otherwise, you are just diverting money from other businesses."

And there's the rub. As gambling



Robert Kelley

Colorado's casinos

The gold rush is already over.

spreads, importing gamblers into a market becomes increasingly difficult.

Christopher Hemmeter, who is developing a casino in New Orleans (*see story, p. 62*), says that he and other casino developers must move so quickly because there is a limited window of opportunity for financing. Hemmeter is right. Pretty soon, investors and lenders will realize that the gambling bubble is about to burst.

Video Lottery Technologies is trying to stage a major comeback. But bad things just keep happening.

Storm clouds

By Dyan Machan

LAST SEPTEMBER \$111 million (1992 sales) Video Lottery Technologies, Inc. took a major hit when its founder and chairman, Larry Lippon, was being pressed to resign. Lippon was discovered to have done business with two convicted criminals, lied to Montana authorities to conceal one of those criminals' ownership in a business and to have funneled political contributions to a gubernatorial candidate through top Video Lottery officers. Video Lottery's stock plunged from 24 to 14.

Video Lottery makes low-stakes (a nickel to \$2.50 bet) video poker game machines for bars in the handful of states that allow such gambling. The company needs a pristine image when dealing with state legislators. So the Video Lottery board moved quickly—distancing itself from Lippon and hiring Daniel Bower, formerly of rival Scientific Games Inc., as chairman and James Davey, the director of the Oregon State Lottery, as chief operating officer.

But Davey and Bower are having trouble burnishing Video Lottery's image. Bower started schmoozing West Virginia lottery director E.E. (Butch) Bryan. The state was about to launch video gambling, and a \$40-million-plus contract loomed. Video Lottery badly wanted that to win back Wall Street's confidence.

For a while things looked pretty good. Bryan announced that West Virginia's business would be awarded to a single supplier rather than several—an unusual move that prompted one lottery commission member, Fredrick Haddad, to resign.

"Yes, we had the inside track," says Stephen Barrett, Video Lottery chief executive officer. "Our machines produce more revenue."

Unfortunately, in its formal Dec. 31, 1992 application for the contract, Video Lottery neglected to mention a



A Video Lottery machine in action

Low stakes in a high-stake business.

\$1,000 campaign contribution to Governor Gaston Caperton made last May by Lippon. An earlier \$1,000 contribution to the governor by Bower wasn't publicized until after the company's bid.

Finally, in late January, an angered Governor Caperton suspended the awarding of any contract. Almost simultaneously, the Federal Bureau of Investigation started probing the political contributions and Video Lottery's possible role in influencing West Virginia's gaming commission. Bryan suddenly resigned.

What's more, the Oregon Government Ethics Commission is now investigating whether James Davey should have taken a job at Video Lottery just months after Oregon had reordered equipment from Video Lottery.

The beleaguered company swears it did nothing wrong, but the publicity hurts. In early December the company lost a \$15 million contract for one of its units to streamline New York State's computerized lottery system. Can Video Lottery continue to be a player in this \$1.5 billion industry? Good question.

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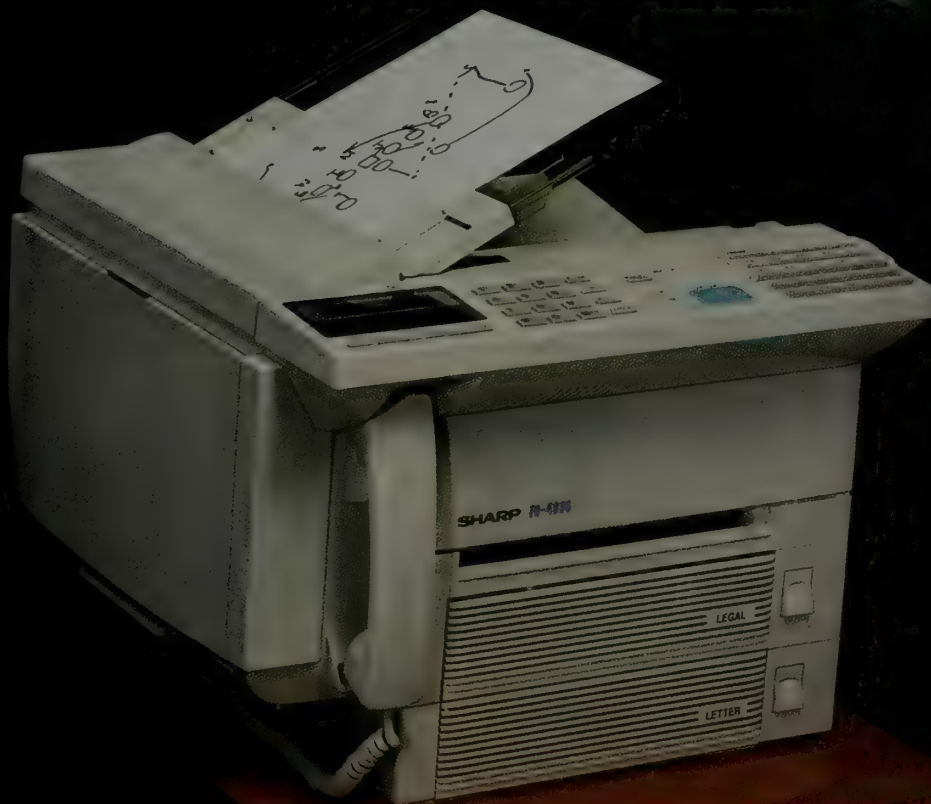
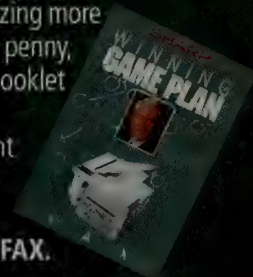
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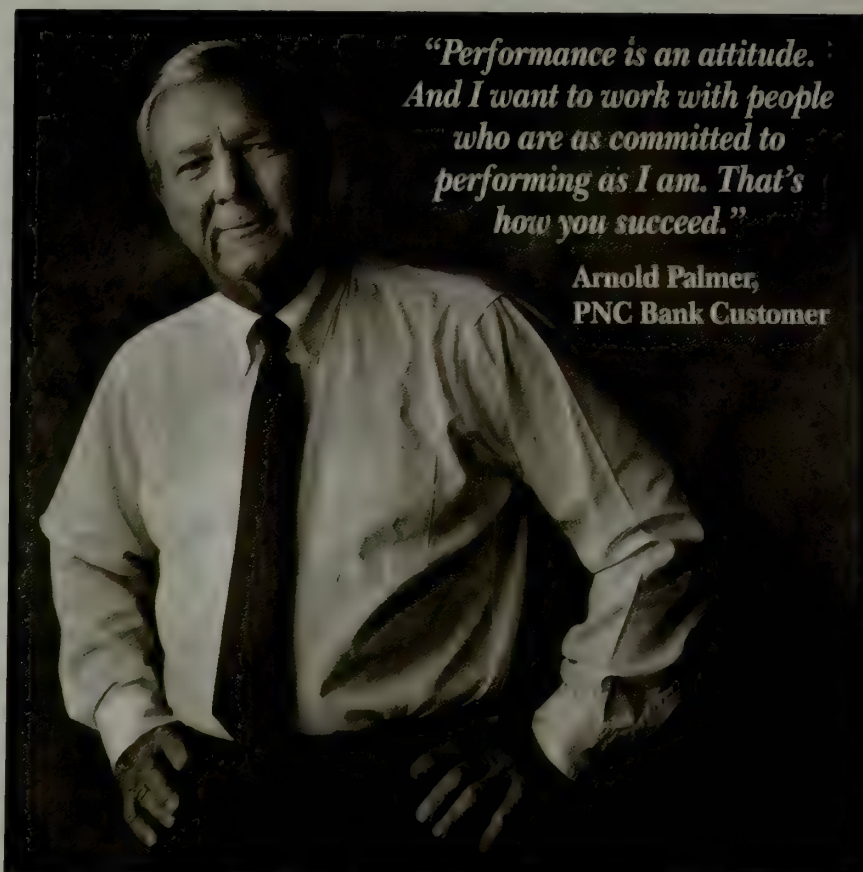
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What do you do when you are going broke selling a product for \$3? Carlos Alvarez raised the price of Shiner beer and—voilà!—business picked way up.

It's all in the image

By Claire Poole

FOUR YEARS AGO 80-year-old Spoetzl Brewery—the last independent brewery in Texas—was on the verge of closing. It was then owned by a Houston investor group led by Lasker Meyer, former chairman of Foley's department store chain; Meyer and his friends had bought it for \$1.6 million in 1984.

The Meyer group planned to run it for a couple of years, then flip it for a profit. But things didn't go their way. By 1988 the Shiner, Tex. brewery was losing \$200,000 a year on revenues of \$2.5 million. To keep it going, the owners turned to producing beer for other brewers and even bottling wine coolers.

Enter Carlos Alvarez, whose privately held \$85 million (1992 sales) Gambrinus Importing Co. had the lucrative Texas and eastern U.S. importing rights to Corona Extra, Mexico's bestselling beer. Alvarez, now 42, had grown up in the beer business. His father was a Corona distributor, and after earning a degree in biochemical engineering from the prestigious Instituto Tecnológico in Monterrey in 1976, Alvarez went to work for the Corona brewery, Cervecería Modelo. Rising to export director, he helped turn the brand into the second-best-selling imported beer in the U.S., after Heineken.

Alvarez saw an opportunity. After several other

deals fell through, Spoetzl's owners sold the brewery to Alvarez in August 1989 for \$1.8 million in cash. Alvarez also assumed \$1.5 million in brewery debt from the previous owners.

It took another \$3.5 million to get the brewery working properly. Spoetzl's 75-barrel copper brewing kettle had grown so thin it was near cracking. After replacing the kettle, Alvarez added 25 new fermentation and storage tanks, as well as a new keg-filling room and refrigerated storage area, and a warehouse adjacent to the brewery. To pick up tips Alvarez and John Hybner, Shiner's brewmaster since 1973, flew to Ger-

many and Czechoslovakia to talk with local brewers.

Alvarez also tackled the part of the business he knew best, marketing. He repositioned Shiner, raising its price from \$3 to around \$4.50 a six-pack. It was now priced higher than Miller Lite (\$3.50) or Budweiser (\$4.15), but well below superpremium U.S. beers like Sierra Nevada (\$6.95) and Anchor Steam (\$7.25).

Turning to his customers from Corona days, Alvarez persuaded several of his 250 distributors to carry Shiner.

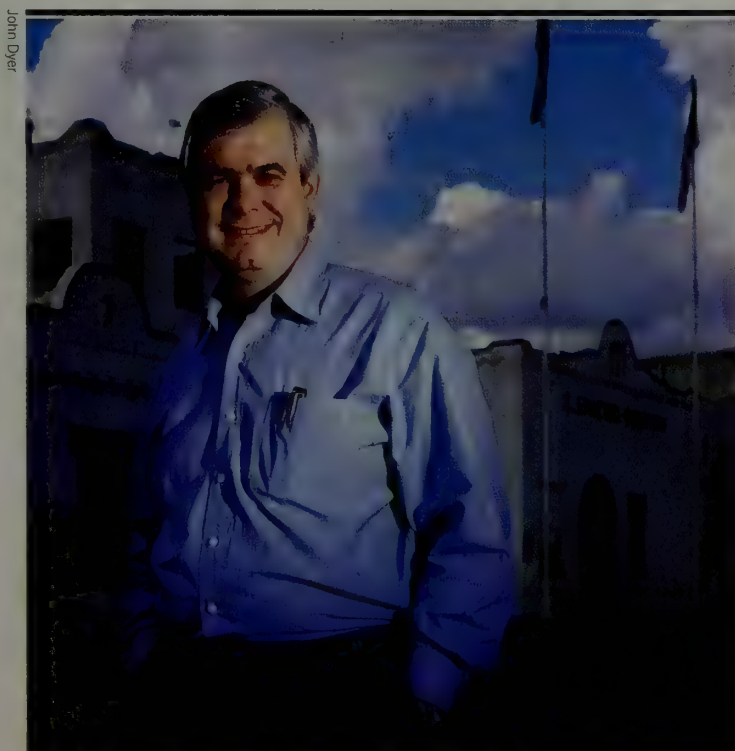
It worked. As just another beer, Shiner was going nowhere. By capitalizing on its unique taste and hand-crafted image, Alvarez has built a great success. Since 1989 production has increased from 32,000 barrels a year to 56,000. In Austin, a big college town, Shiner Bock, a full-bodied amber lager, is now the number three draft beer, after Miller Lite and Budweiser. College kids want to be different. They are willing to pay for the privilege.

Last year, Spoetzl sold \$7.5 million worth of beer and made a small profit, Alvarez says. But he's after a lot more than that. He's testing the waters in major markets like Nashville, Atlanta and, most recently, Philadelphia, where Shiner is gaining a following in select bars and restaurants.

While he wants to eventually take the brand national, he's moving cautiously, opening up big markets one at a time. He's even putting off some eager Corona distributors, for now, as he doesn't want to spread his promotional budget too thin.

Alvarez is also advertising Shiner for the first time. Last year he spent a meager 5% of sales—mostly on billboards and tabletop promotions for bars and restaurants—promoting the brand. (Big brewers like Anheuser-Busch and Coors spend over 10%.)

Says Alvarez, somewhat ingenuously: "We just want to get across that there is a little brewery in Texas that produces a good beer."



Gambrinus Importing's Carlos Alvarez outside the brewery

Beer is in his blood.

This man is so competitive
he even competes with himself.

Brian Smith/Outline

Would you believe it? Craig McCaw says he is risk-averse

By Fleming Meeks

THIS WAS NOT your standard dignified gathering of corporate brass. During dinner the chairman flings a grape across the dining room at Ocean Reef Club in Key Largo, Fla., scoring a solid hit on a woman executive. Soon strawberries and grapes are flying. When the chairman steps to the podium for his after-dinner pep talk he is greeted with a barrage of dinner rolls.

Deadpanning, Chairman and Chief Executive Craig McCaw says to the assembled brass of McCaw Cellular Communications, Inc.: "Thank you for that dose of respect."

Beneath the high jinks, however, was tension among the 130 McCaw executives. Youthful, mostly in their 30s and 40s, they were anxious about their futures. Only last November McCaw announced the sale of one-third of the Kirkland, Wash.-based company to AT&T for \$3.8 billion (*see box, p. 81*). Now he's about to talk to the group about the deal for the first time.

They are clearly worried. Will their entrepreneurial company be smothered by \$65 billion (revenues) AT&T? McCaw reminds them of an earlier investment in his company made by another larger company, *Boston Globe* publisher Affiliated Publications.

McCaw: "While I won't predict, yet, that we will do the acquiring of AT&T, rather than them of us, we were partners with Affiliated years ago. They bought 45% of the company for \$12 million in 1981. At the time they were worth about 30 times more than we were. Eight years later, when they spun our stock [then worth \$2.6 billion] off to their shareholders, we could have bought Affiliated and not even known we'd done it."

The following evening AT&T Chairman Rob-

ert Allen addresses the group, invoking NCR Corp. as an example of AT&T's hands-off management strategy (*FORBES, Feb. 1*). "We have no desire to make over NCR in AT&T's image, and we certainly have no intention of doing that with McCaw," Allen promises. "Not now and not anytime later." After finishing his speech, Allen pulls a dinner roll from his pocket and throws it at McCaw, who deftly sidesteps it.

A self-made billionaire at 43, Craig McCaw fits no obvious mold. A skilled pilot who flies his own Falcon 900 jet, he is also a vegetarian—though his PR man says he occasionally eats salmon, even chicken. Sartorially he prefers Patagonia outfits to business suits. He owns a 150-foot yacht and says *Patton* is his favorite movie. What makes him tick? "I haven't figured me out either," McCaw laughs when a reporter tries to reconcile McCaw's low-key personality with his enormous success.

Here's one thing that can be figured out by anyone with a pencil: The McCaw family's stake in their company is now worth about \$1.6 billion, making Craig Seattle's second-wealthiest young chief executive, behind his 37-year-old neighbor, Microsoft's Bill Gates.

Like many successful business people, McCaw, the second of four brothers, started learning business almost as soon as he learned his ABCs. His father, John Elroy McCaw, was a daring and often reckless entrepreneur who bought and sold dozens of radio and TV stations

Craig McCaw

**"I haven't figured me
out either."**



and cable systems. When Craig was 8 his father was already taking him on business trips, and was sharpening the youngster's strategic skills by playing chess with him. His mother, Marion, was one of the first women to earn an accounting degree at the University of Washington; she kept the family companies' books and shared her interest in financial orderliness with her sons.

Craig was 16 when his father sold him and his three brothers a tiny cable system in Centralia, Wash., two hours south of Seattle. The boys paid no cash for the 2,000-subscriber system, giving their parents preferred stock. That was 1966.

Just three years later, the elder McCaw died, leaving behind an estate that was ultimately liquidated to satisfy creditors and the taxman. By then Craig was a sophomore history student at Stanford, managing the cable company out of his dorm room.

That room was more like the headquarters of a small conglomerate than like a student's digs. From it McCaw tried, and failed, to take over the university's vending machine business, and was operating a small aircraft leasing firm.

It was a straight line from that cramped headquarters to the \$1.75 billion (expected 1992 revenues) company that provides cellular telephone service to 2 million customers across the country, mainly under the name Cellular One.

What of Craig's brothers? Bruce McCaw, now 46, was already in the aviation business when his father died, and was uninterested in the cable company; John McCaw Jr., 42, recently left the company after some 20 years and bought a stake in the Seattle Mariners; Keith, 39, spent over 10 years in management and operations.

From its tiny base, the company grew quickly, but it really took off in 1981, when McCaw Communications had just \$5 million in revenues, almost all from cable TV. Even as the company was expanding its cable operations, McCaw dug up projections AT&T had filed with the Federal Com-



McCaw Vice Chairman Wayne Perry
"Every deal we did had a back door."

munications Commission. The projections forecast 900,000 cellular subscribers by the year 2000. As it turns out, those projections were ridiculously low; in 1993 there are already 10 million subscribers. But those 1981 figures were high enough to get McCaw excited. The company applied for and was granted licenses in 6 of the top 30 U.S. markets in 1983.

At the time, cellular licenses could be purchased for around \$4.50 per "pop"—that is, per person in the market. Using the AT&T data to calculate potential cash flows, McCaw and McCaw Vice Chairman Wayne Perry, a tax lawyer who joined McCaw in

1976, decided the licenses were worth far more. "The AT&T projections made it a no-brainer to go to 80 bucks a pop," remembers Perry.

The AT&T numbers provided the young men with a strong proposition to put to the bankers. In effect it was: We don't know how much these newfangled cellular licenses are worth, but based on AT&T's numbers they're worth a whole lot more than \$4.50 a pop. The bankers agreed and accepted the licenses as collateral.

McCaw launched a tremendous buying spree, fueled almost entirely by borrowed money, including \$1.25 billion raised by Michael Milken between 1986 and 1988.

In 1987 McCaw sold its cable business—by then up to 434,000 subscribers—for \$755 million in order to raise equity and plunge further into cellular. "We were never going to have a major influence on the cable business," McCaw says. "Cellular was a place where we thought we could make a difference."

The heavy borrowing scared a lot of people away from McCaw Cellular—affording people who understood the company a chance to make fortunes off its stock and bonds. In the last three years the stock has been as low as 11 a share and as high as 47. Recent price: about 35. The senior bonds were 56; today they're at 106.

Yet McCaw insists that he was never highly leveraged. "We have always been risk-averse," he says, "in spite of our willingness to borrow a lot of money."

Is he kidding? Not at all. During the early business trips and chess games with J. Elroy, McCaw says he learned the concept of the exit strategy. "Every deal we ever did had a back door," says Perry, "The public just didn't see the back doors."

The back door—obvious today but not so obvious then—was that the licenses could easily be sold. Who would buy them? The Bell companies, gladly.

By the latter 1980s the Bells were beginning to grasp that cellular would be a great business and began buying up indepen-



McCaw President James Barksdale
Turning the attention to the customer.

dent (or non-wireline) cellular licenses in other markets. Because McCaw had been an early buyer on a large scale, the Bells had to deal with him. Perry says the Bell companies were regularly offering to buy McCaw licenses in various markets.

That meant that the Bells, with their hefty balance sheets and surging cash flow, became an important source of financing for upstart McCaw. He could sell for more than he had paid cellular companies that didn't fit his grand scheme, using the cash to buy bigger markets that did fit.

This support from the Bells was crucial when McCaw outbid BellSouth Corp. for control of LIN Broadcasting, with licenses in New York, Los Angeles, Houston and Dallas markets, in 1989. McCaw paid \$3.5 billion, an unheard-of price of \$350 a pop. People thought he had lost his mind. But remember the back doors: Before making his move on LIN, McCaw raised \$1.2 billion in fresh equity with an investment by British Telecom, plus \$1.3 billion through asset sales to Contel Corp.—and he still had several offers on the table from Bell companies interested in buying his interests in other markets.

Says Perry: "The only concern we ever had was that the Bell operating companies would cabal, would say to each other, 'Don't buy McCaw's properties, don't give 'em the flexibility.' But we believed that the inter-BOC rivalry was so great that they could never ever effectively cabal."

Using this easy ability to buy, sell and swap, McCaw was able to cluster its markets—the first step toward creating a seamless network (*see map, p. 82*). Call a Cellular One subscriber at his San Francisco number, and his phone automatically rings, whether he's in New York, Miami or Little Rock. McCaw is now working to bring other cellular operators into the North American Cellular Network (which includes all of Canada) so that corporate users can be offered a comprehensive service package. PepsiCo and Miles Inc. are among the companies already asking for it, and many more will undoubtedly follow suit.

In south Florida, where McCaw's Cellular One has 148,000 subscribers, the company is now offering digital service. Not only does digital cellu-

Why Craig McCaw gave up control

"I'M PUTTING AT RISK, at least nominally, the thing I treasure the most, which is the ability to single-handedly determine the course of the company," says Craig McCaw.

McCaw is talking about his deal to have AT&T buy 33% of McCaw Cellular Communications.

McCaw has taken on major equity partners before without losing control—Affiliated Publications in 1981, British Telecommunications in 1989. (AT&T is buying BT's stake for \$1.8 billion.) But this deal is somewhat different. McCaw and his three brothers continue to control 74% of McCaw Cellular's Class B super-voting stock, but AT&T has an option to buy those controlling shares.

AT&T paid \$100 million for a seven-year option to buy the brothers' voting power. To exercise the option, AT&T would have to pay an additional \$600 million to the McCaws.

AT&T would get only the McCaws' voting power, not the equity underlying the shares: The family would trade their powerful Class B shares to AT&T in exchange for ordinary Class A shares. With the A shares they already own, the family would remain the company's largest shareholder.

Why did Craig McCaw decide to give up control of the company he has run for 27 years? For the past two years McCaw and AT&T have been discussing some kind of partnership—discussions that ultimately led to the possibil-

ity of McCaw gaining rights to use the AT&T brand name. That appealed greatly to McCaw, who views the development of a cellular network as a sort of mission (*see story*).

But, recalls Vice Chairman Wayne Perry, who led the negotiations for McCaw: "AT&T made it very clear that if we had their brand name, they had to have a pathway to control. And we as a deal team came to a fundamental conclusion that they weren't bluffing."

At that point, Perry told McCaw that if McCaw was serious about getting use of the AT&T name, then he would have to put control of the company on the table. "He called me back right away," says Perry. "I mean 15 minutes. Craig is very good at decisions. He said, 'Go.'"

And what if his decision should ever make Craig McCaw expendable? "I've never had more fun in my life than I'm having today," he says. "I get to work with wonderful people in a great cause and a fun business, at a time when the risks are huge and the opportunities are huge."

"But jeez, if somebody retired me today, I wouldn't mind. I'd go do something else. I'd take soybean oil and put it in diesels. It's environmentally smart, and we grow it right here in our own country. You could run the city buses in New York within 2% of the efficiency of diesel fuel." Pausing, he adds, "There's so much to do." —F.M. ■

lar produce distortion-free calls, it also allows value-added services like paging and caller identification to be offered through the same handsets. Digital will soon be rolled out by LIN Broadcasting in New York City.

And thanks to heavy capital expenditures—since 1990 McCaw and LIN have spent \$1.4 billion building and upgrading cellular systems—digital service can be rolled out in all of their markets by doing little more than changing computer boards at their cell sites. This, in the not too distant future, should cut the capital cost of adding subscribers from over \$1,000 each to about \$300.

Last month United Parcel Service became the first customer on a nationwide cellular data network for its 50,000 trucks. A broader, more sophisticated data service will soon be offered to the cellular customer base. By attaching a device smaller than a cigarette pack to a laptop computer, or even a Sharp Wizard, business users will be able to send and receive electronic mail, faxes, spreadsheets and documents.

So why did the free-wheeling Craig McCaw need AT&T when he was doing so well on his own? Basically because McCaw Cellular is now turning from acquisitions to signing up and servicing customers. Servicing customers is what AT&T is great at doing.

Overseeing operations is McCaw President James Barksdale, 50, who came to McCaw last year after nine years as chief operating officer at Federal Express, where he worked with FedEx founder Frederick Smith. Barksdale has already begun bringing the kind of dedication to customer service that he brought to FedEx, which grew from a \$1 billion (revenues) company to \$7.7 billion during his years there.

Little things, like nationwide 24-hour customer service, have been added, and a database on every one of the company's 2 million customers' phones is on the way. When a customer calls with a question about how to

forward calls, say, the service rep will be able pull up a picture of the particular phone on a computer screen and guide the customer through it.

Barksdale has also vowed to reduce customer churn—now about 2% a month, down from around 4% three years ago. Through improved customer service and tightly focused marketing that weeds out customers likely to cancel their service, Barksdale thinks he can cut churn—a huge 465,000 customers last year—dramatically. If he succeeds, the impact will also be dramatic. Every 1,000 customers McCaw retains adds over

joint venture with GM's Hughes Electronics, Claircom has spent \$100 million building ground stations for a digital air-to-ground phone, data and fax service, which began offering services to travelers on Northwest Airlines, Southwest Airlines and Alaska Airlines last month. By the end of the year Claircom expects to have all of the domestic air routes covered for its AirOne service.

McCaw Development Corp., run by Peter Currie, is looking at buying stakes in foreign cellular licenses. Attractive markets include Mexico, where McCaw Cellular already owns 22% of a cellular operation; Brazil; and the Far East, where McCaw is a 30% partner in SmartCom Ltd., a Hong Kong cellular operator. AT&T's financial muscle—the ultimate back door—will help ensure that Currie can finance whatever attractive deals he finds.

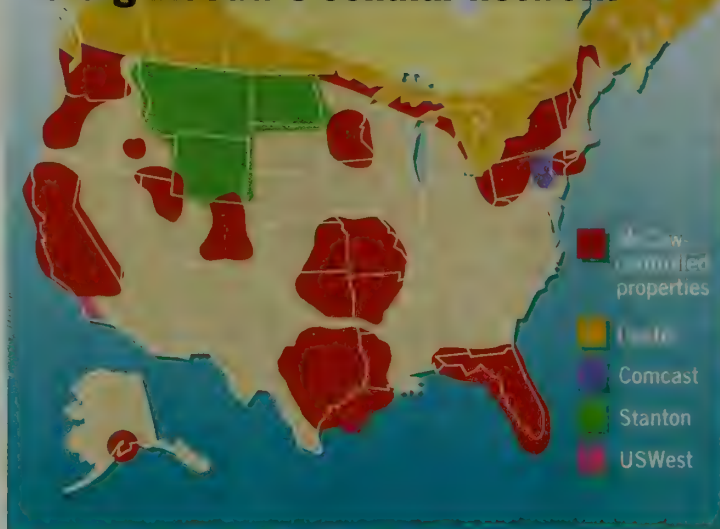
At the same time, cash-consuming McCaw is generating cash on its own. This year Barry Kaplan of Goldman, Sachs expects it to net \$183 million, or 89 cents a share, before amortization of intangibles—a noncash charge.

To return to McCaw's half-kidding speech at Key Largo in January: Is it conceivable that the McCaw tail might one day wag the AT&T dog?

Probably not, but it is more than possible that McCaw's youthful, freestyle management will permeate AT&T and help that sprightly old giant stay ahead of the fast-moving technology and consumer curves.

For keeping in touch is a large part of what Craig McCaw is about. For two days prior to McCaw's managers meeting in Key Largo, the group was bivouacked in the barracks of a Boy Scout camp in Homestead, Fla., from which they ventured out to build houses for low-income families with Habitat for Humanity. Craig pitched in with the roofing crew. "For me it felt good to say, 'Boy, I can nail a nail better than I did when I was 17.'" Here's a fellow so competitive that he even competes with himself.

Craig McCaw's cellular network

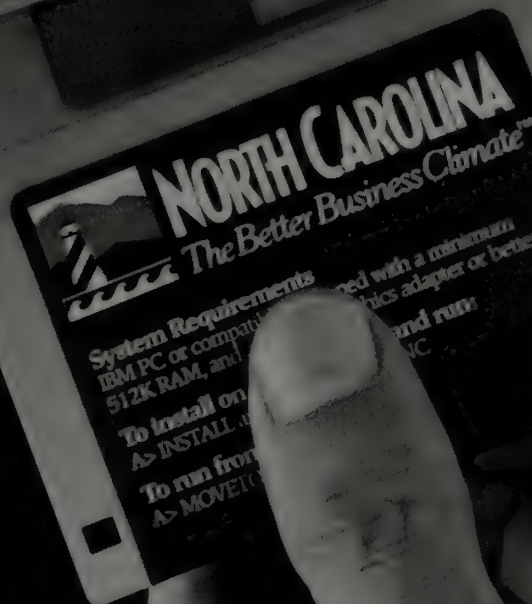


Allies are joining Craig McCaw's seamless cellular network. Call a Comcast subscriber at his Philadelphia number and his phone rings, whether he's in New York, Toronto or Miami. By midyear, all of the highlighted properties will be connected to the McCaw network.

\$1 million in annual revenues.

The AT&T alliance should go a long way toward helping Barksdale cut customer turnover. The McCaw sales staff will work with AT&T to use its databases on 75 million residential and business customers, to aid it in target marketing. Nor will it hurt that the brand will be a combination of the Cellular One and AT&T names. According to a McCaw survey, the cellular service brand with the most national recognition is Cellular One; the second most recognized name is AT&T—and AT&T isn't even in the cellular business.

McCaw is pushing even further into wireless communications. Take Claircom, for example. A 51%/49%



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YOU DON'T GO BACK TO BASICS. YOU TAKE THEM FORWARD.

There is a curious shift in business these days, "back to the basics." And it seems as if the sophisticated fast-trackers of the '80s have been transformed into the business fundamentalists of the '90s.

Nice try, guys. The simple truth is, basics are something you start with and take forward. Not retreat to.

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The basics. By taking them forward, they've taken us forward. To where we are today, to where we'll be tomorrow.



C o n s e c o

There are no dead-end jobs.
There are only dead-end people.

Serving is not servitude

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

ONE OF THE IRONIES of our time is that no occupation seems less domestic than domestics. Foreign domestics are hired not only by people like Attorney General nominee Zoë Baird, but also by hotels across the United States and in countries overseas.

There are many layers of irony in all this.

While people like Secretary of Labor Robert Reich and others are crusading for "retraining" people for the demanding, high-tech jobs of the future, some of the most urgently needed people are those who can do simple things reliably and conscientiously. Child care and the care of the elderly are prime examples of occupations where it is hard to get good people—and extremely important to have them.

Why is it so hard to find domestic domestics? The two principal reasons are that (1) the idea has been promoted that there is something "demeaning" about doing "menial" work and (2) the taxpayers are subsidizing this philosophy with welfare and unemployment payments. Apparently it is not considered demeaning to accept handouts, whether from the government or on street corners.

Foreigners who have not been here

long enough to assimilate our more self-destructive attitudes are able to find jobs that Americans disdain. In more than 20 years in California, I have never seen a Mexican-American begging in the streets, though beggars and hustlers have become a common sight and a common nuisance.

Domestic service is considered one of those "dead-end" jobs that the intelligentsia and the socially sensitive deplore. Yet these jobs have not only put a roof over people's heads and food on their table, they have also been the first step out of poverty and ignorance for many people in many lands.

In centuries past, inns and eating establishments in Britain were often set up by women and men who had begun their careers as domestic servants for the well-to-do. There they learned not only the preparation of food and the care of a home, but also picked up manners, social graces and a sense of how to manage things.

In the United States, blacks were at one time prominent among caterers because of a similar background in domestic service. When George Washington took his officers to a last dinner after the victorious conclusion of the Revolutionary War, he took them to a well-known tavern owned by a free black man.

Many of the early Japanese immigrants to the United States began as domestic servants. Their conscientiousness and trustworthiness became so widely known that this reputation helped them take the next step up the economic ladder, as self-employed gardeners.

Today, the Japanese gardener is a California institution. He is his own boss, with a list of clients whose lawns and gardens he typically visits weekly

for about an hour. Where the home has a fence or an atrium, he has to have a key, so his reputation for trustworthiness is crucial.

Many of these Japanese-American gardeners have done quite well for themselves, and have put children through college.

There are no dead-end jobs. There are only dead-end people. Our current social philosophy, and the welfare state apparatus based on it, are creating more dead-end people.

No amount of retraining can help that. First of all, you cannot retrain people who have not been trained in the first place, who didn't bother to learn in school, and who have never developed a sense of responsibility.

Domestic service is more than a job. It is a window on another world. Just as nations and civilizations learn from one another, so do individuals.

People too poor to become educated, or exposed to wider cultural horizons, nevertheless learned something of another vocabulary, of cultural interests they would never have been aware of, except for working in the homes of people more fortunate and better educated than themselves.

Looking back over my own life, I can remember all sorts of books and toys brought home to me by members of my family who worked in the homes of affluent people with older children who had outgrown these things. What they also brought home to me were cultural intangibles from table manners to an interest in world affairs.

Cultural diffusion does not have to be on the scale of Europe's learning Arabic numerals or acquiring paper from China, or Japan's acquiring a whole spectrum of Western technology. Cultural diffusion can mean a foreign maid learning English in an American home, or a boy in Harlem growing up knowing that there is a much bigger world out there than Harlem.

Unfortunately, the current intellectual and social fashions destroy this whole process. In its place, they offer the poor a parasitic life in a world of ugliness and barbarism, trapped in a dark corner of ignorance and prey to demagogues who seek further to imprison them in phobias and bombastic provincialism.

Such is social progress.



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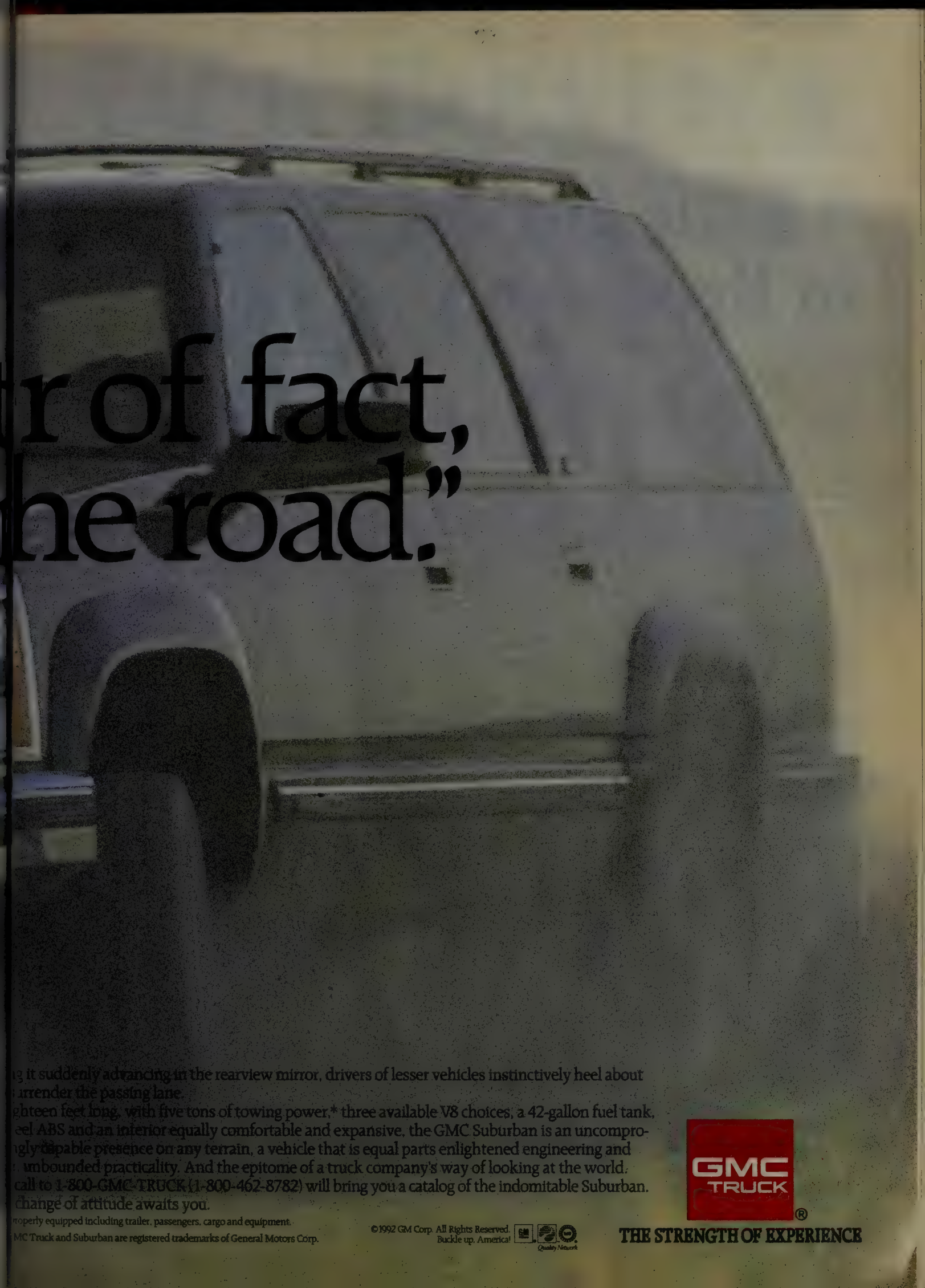


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THE STRENGTH OF EXPERIENCE

In 1910 Louis Epner bronzed baby shoes. His son David carries on but needs new business, a friendly bank and a thief-proof car radio.

A little guy in Brooklyn

By Jerry Flint

NOT ALL small business is glamorous, high-tech, new venture stuff. Epner Technology Inc. is typical of tens of thousands of small businesses: It makes mundane products, struggles to survive and yet provides a livelihood for lots of people in an area that badly needs jobs. Epner isn't the kind of business that usually wins help from Washington or attention from learned professors. Maybe it should.

When David Epner, Epner Technology's president and owner, parks his Mercedes near his Brooklyn, N.Y. factory, he pulls off the front plate of

the radio with the buttons, to trick thieves into thinking there's no radio.

The factory itself is an old mortuary, and Epner calls his neighborhood the (chemical) drum refurbishing capital of the world. That makes for bad smells. It also frightens bank loan officers. "The banks are afraid they'll end up owning the property and be responsible for cleaning up everything," Epner quips.

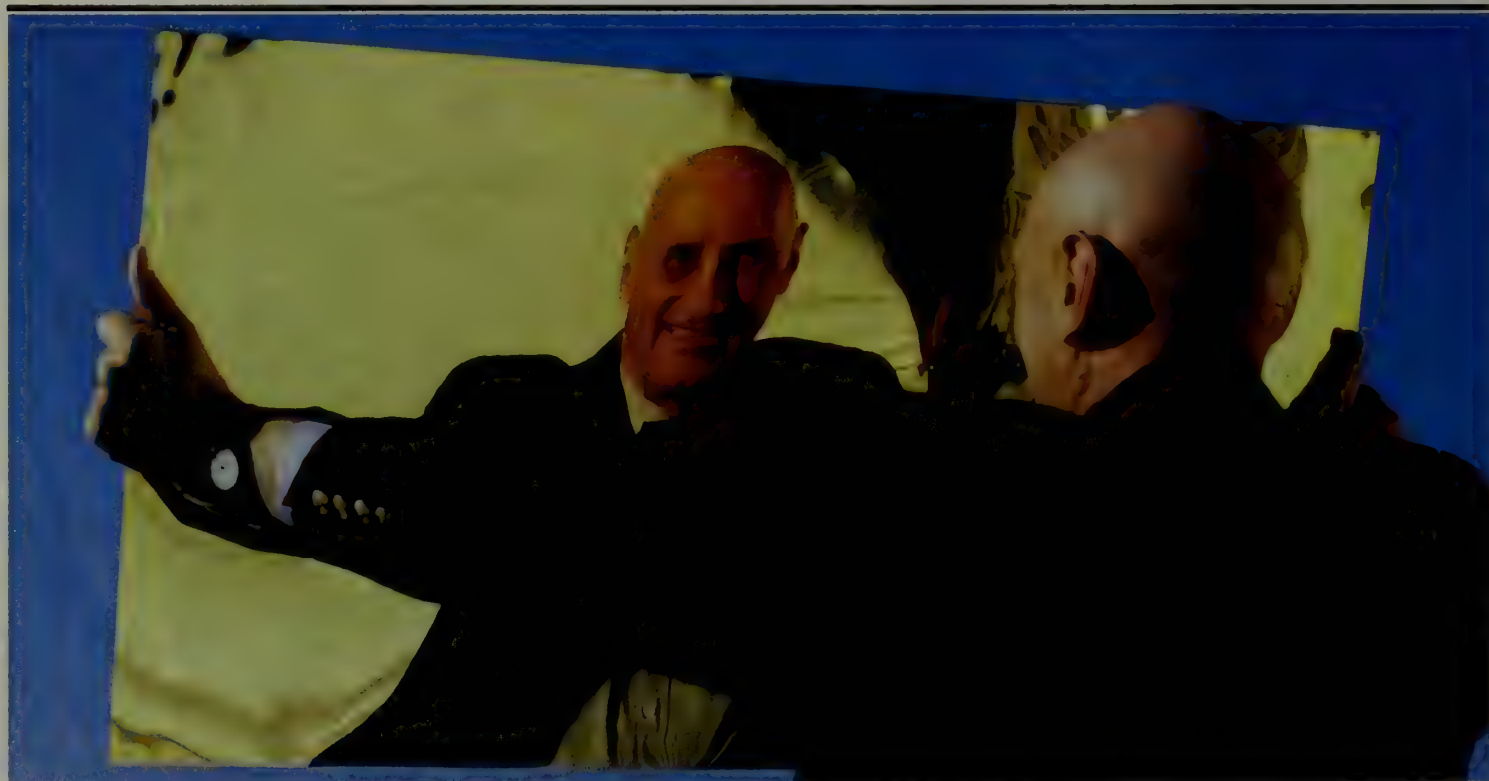
But David Epner, 60, has been a Brooklyn boy all his life, and why would anyone want to leave Brooklyn? His company is into gold plating.

Infrared light reflects brilliantly off gold, useful in, for example, missile parts and auto paint drying ovens.

"This is a job shop. You call me up with a problem. We solve it or you go somewhere else. That's the bane of our business. You are always looking for another order. We always look for a product we can own, sell inventory, be in control of our destinies."

Still, Epner survives. A good thing for the 40 people it employs, who would have scant chances for other jobs in this depressed area. To paraphrase Humphrey Bogart's speech at the end of *Casablanca*, in this crazy, mixed-up world, the problems of a little guy in Brooklyn don't count for much compared with the big-time woes of IBM, GM and American Express. But those same little guys may tell us more about the spirit that drives this market economy than the giants.

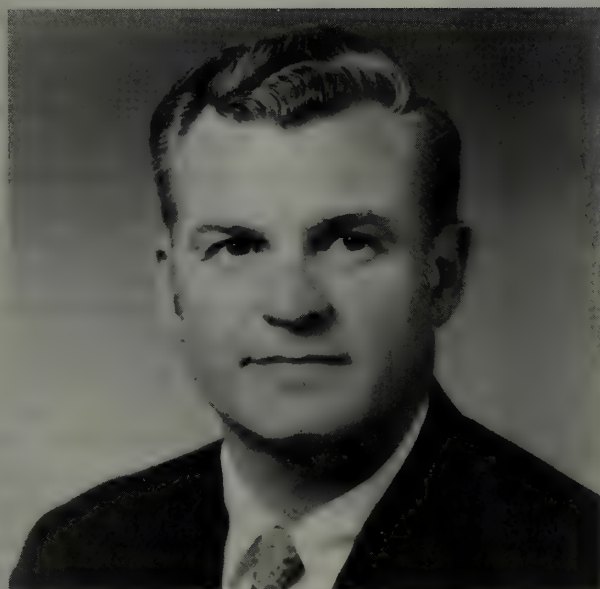
"Dad started it in 1910. He stole his boss' secrets, then went into business with my grandmother's \$600 from her catering business," Epner says. The Epners stuck with business while others went off into more glamorous things. Louis Epner's partner was Emanuel Cohan, and Cohan's grandson is executive director of the San Francisco Symphony. "When he



Reflections in a golden eye: David Epner, president, Epner Technology, and one of his super-reflecting panels

"I am in a sword into plowshares mode."

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at 12:30. Mark McEwen of *CBS This Morning* will be our host. Individual tickets are \$250; a table for ten is \$2,250.

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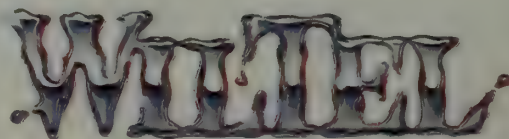




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Epner Technology

was with the symphony in St. Louis, I silver-plated the mouthpieces of the brass section," Epner laughs.

Epner says he does about \$3.5 million in business a year, but he's got troubles. The company lost \$200,000 last fiscal year (March 1992) and this fiscal year he expects to break even.

The trouble is that most of the business was military, tiny gold-plated reflectors for TOW antitank missiles and for missile jammers, for example. Defense, obviously, is fading, although the company gold-plated sunglass frames for Desert Storm. "I am in a swords into plowshares mode," Epner says.

Until the 1970s business was largely plating jewelry and novelties. "Remember, in the 1960s banks and supermarkets would give you a five-piece gold place setting. I was doing 60,000 pieces a day."

The thrust of the business changed when he gold-plated an aluminum reflector for Xerox in 1972. "That doubled our sales. It was the most beautiful plating we ever shipped out. But we got back trailerloads of rejects, because we weren't meeting their reflectance standards." This led to an effort to raise his technical level, paying off later in the missile work.

"But in 1975 we nearly lost it all. Remember the digital watch craze?" He mimicks the Texas Instruments buyer: "'You are the only man who can save TI's watch business, but you're a quarter too high.' That buyer knew how to strum a small man's ego. Wow, little me, I can save TI, and I'm only a quarter too high. I was making 10,000 watchbands a day for Texas Instruments, and we lost our shirt. None of our creditors lost anything, but it was close. We were tapped out. So in 1979 we decided to downsize the company by taking this infrared know-how and moving it upscale."

Epner's had some luck in Detroit selling his gold-plated infrared oven-reflecting panels. European carmakers are buying, too. The idea is that the strong gold reflections make for faster and better-quality drying and less energy use in drying the new cars after they've been painted.

The gold plating also is used on some computer parts and systems for making semiconductor wafers. Epner has applied his technology to silver

atings: "Motorola said it's the most
conductive silver they ever tested."

But finding new business isn't the
only problem. "The cost of environ-
mental compliance is staggering. I've
red a full-time, \$40,000-a-year en-
vironmental person to make sure that
not one part per million goes down
the sewer. Anyone in Washington
listening? Or don't they care much
about 40-job shops in Brooklyn?"

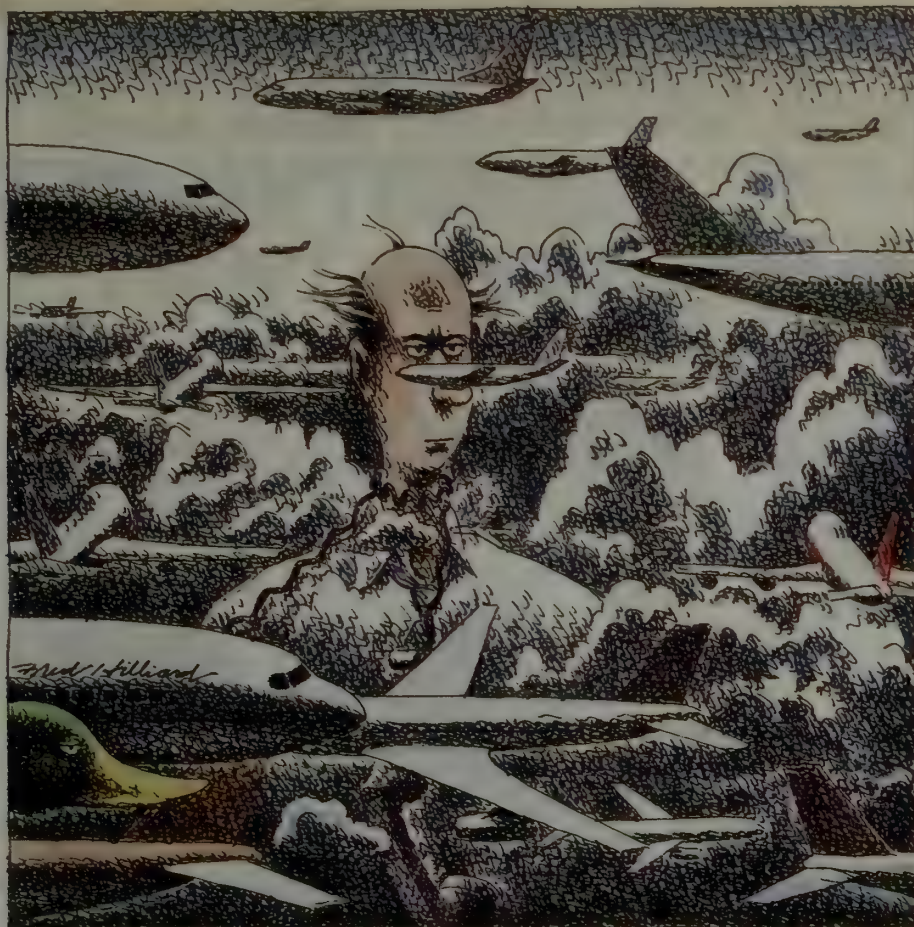
"And financing. I would like to
build a modern production facility [in
the basement]. A half-million. [In
Manhattan, that's the cost of a good
three-bedroom, two-bath with view
on the Upper East Side.] I can't bor-
row. Because you've had a couple of
bad years, the banks don't want to
lend now, and then they see drums or
anything chemical and they run. I'm
trying a Chinese bank now."

He's 60 years old.
Why not just quit? "I'm
possessed by this," David
Epner says. "You go to
work in your father's
business, and you have
one job in your life. En-
suring that the compa-
ny goes on validates my
right to be here."

He's 60, why not just quit?
"My father died working."
But David Epner has no children to
inherit the company. "No, the next
generation are the men in the plant
like Steve Candiloro, who will keep it
going." He points to Steve, a husky
hairsleeved man. "I hired him in
1980. I couldn't pay enough for his
expertise, I gave him stock."

"I'm possessed by this. You go to
work in your father's business, and
you have one job in your life. It
ensuring that the company goes on]
validates my right to be here."

He's sure that his silver coating will
fit into the growing cellular telephone
business. "I want to get the company
to \$5 million to \$6 million. At \$5
million to \$6 million we'll make a
fortune. We're going to be a story." It
could be, or Epner might just go on
surviving. Not every business turns
into a roaring success. But they all
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Telemarketing is today's hot way to sell computers. Olan Mills discovered it 45 years ago as a great way to sell an old-fashioned, rather mundane product.

"We got on the phone"

By William M. Stern

TAKE A LOOK around any living room in Middle America and you're likely to see a few posed family photographs. Look at the small engraving in the lower left corner. Chances are you'll see the name Olan Mills.

Olan Mills Inc. is now the largest company in the U.S. specializing in portrait photography, a \$5 billion business. Still privately owned, with estimated sales of \$475 million, Olan Mills has nearly 10% of the business, about twice the share of its nearest competitor, publicly owned CPI Corp. With operating margins approaching 15%, Olan Mills is also more profitable. Its competitors' operating margins average 12% to 13%.

The secret of its success? Olan Mills

has 15,000 employees. Only 1,500 are photographers; but more than 7,000 people are on the phones four to eight hours a day in search of business. "We got to be number one because we never gave up on telemarketing," says 62-year-old Olan Mills II, known as O.M. Two. A soft-spoken ex-Army pilot, he has guided the firm with his brother Charles George (C.G.), 55, since their father, now deceased, stepped down in the early Seventies.

"Our competitors have tried the phones," O.M. Two continues, "but none had the stomach for it." It's tedious work. As is true in most telemarketing, workers quit and are replaced after only two or three weeks

on the job. "Despite this," O.M. Two emphasizes, "we never gave up. That's our secret."

Competitors, by contrast, tend to take the easier path of making deals with major retail chains and setting up studios in the corners of their stores. CPI operates its studios in Sears stores, PCA in Kmart, American Studios in Wal-Marts, and privately owned Life-touch in J.C. Penney. They attract customers with newspaper and television advertising and by being where customers shop and might get the impulse to book a sitting.

Olan Mills doesn't wait for such impulses; it tries to create them. Its sales have been growing 8% to 10% a year for the past five years; its competitors have averaged just half of that.

There's nothing magical or high-tech about Olan Mills' telemarketing. It dates back to 1948, when the company was 16 years old. Olan Mills, an ex-real estate salesman, bought a bankrupt studio in Tuscaloosa, Ala. He then crisscrossed the South photographing babies, door-to-door, while his wife, Mary, processed the film back in Alabama.

Mills learned about the power of telemarketing quite by accident. One day in 1948 an Olan Mills salesman overheard another salesman hawking wares by phone. He tried the same technique with photography. His orders shot up 400% that week. The lesson wasn't lost on shrewd Olan Mills, who quickly installed more phone lines and hired more telephone salespeople.

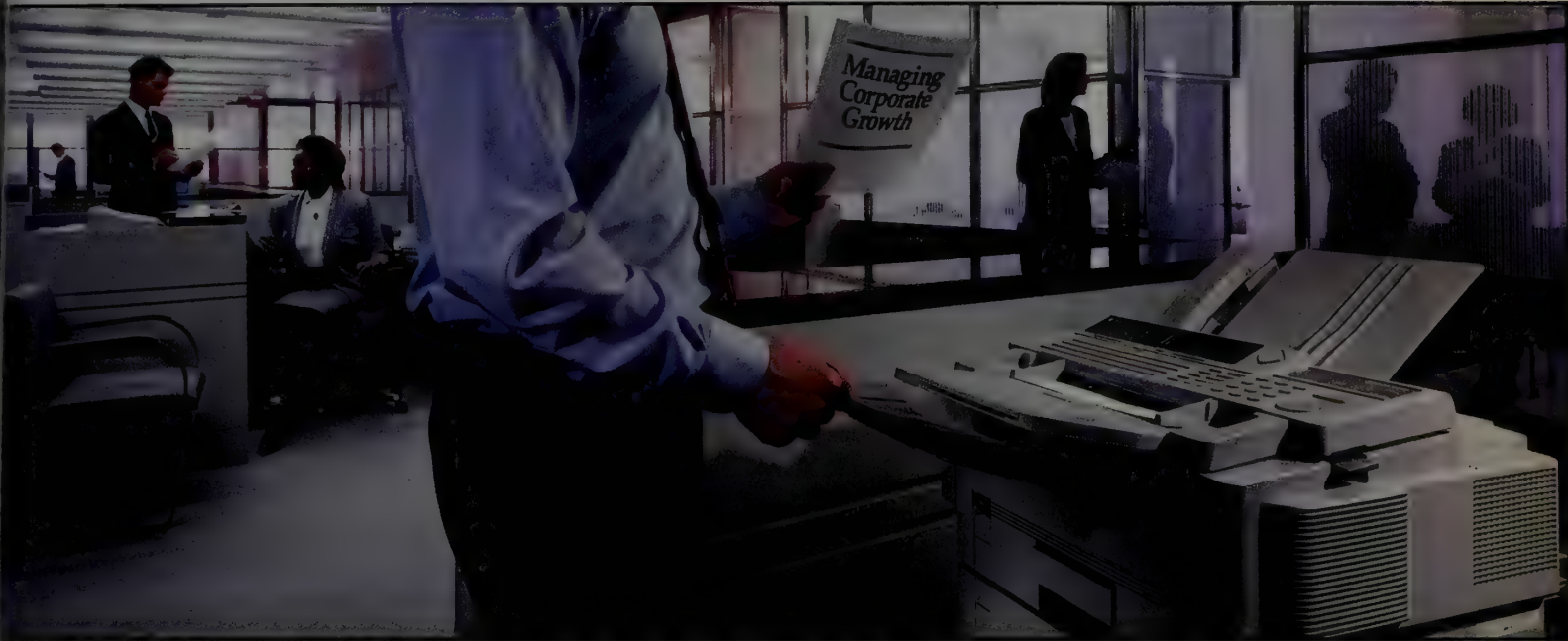
Telemarketing didn't solve all the problems. Customers were susceptible to the pitch chiefly at Christmas. How could the company keep the cash flowing year-round? "Back in 1952 Dad had this idea to get on the phone and sell a package of three sittings for \$3, taken over a 12-month period," says C.G. When the customer came for the second and third sittings, he or she invariably ordered additional photos, spreading income throughout the year for the company.

The rest is history. On these simple concepts religiously executed, Olan Mills has built a chain of 1,000 company-owned studios not only in the big cities but also in out-of-the-way places like Opelika, Ala., Xenia, Ohio and Puyallup, Wash. The three-sit



Michael A. Schwartz
Brothers C.G. (left) and Olan Mills II in a company studio in Chattanooga
Their children take no part in the family business. Is it for sale?

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**FYI Date: May 10, 1993
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Olan Mills

things-a-year package, now \$15, remains the cornerstone of Olan Mills' business. Average sale per customer in 1992: \$60.

When siblings O.M. Two and C.G. assumed the reins of Olan Mills in 1972, sales had grown to about \$20 million. They moved the company headquarters to Chattanooga and rode a fortuitous demographic tidal wave. Baby boomers were having babies of their own, and with each heavenly bundle there was need for updated family portraits.

Today the baby market is getting crowded, but fortunately the brothers expanded into school and yearbook photography (1.5 million a year today), church directories (8,000 churches) and glamour photography—providing customers with trendy hairdos and designer costumes for their pictures (14 studios). But family portraits remain the bulk of Olan Mills' business.

Why haven't competitors simply copied these techniques? "Their public competitors sell a cheaper product and chase the baby market almost exclusively," says Interstate/Johnson Lane analyst Stephen Shook. Thus, they don't get the follow-up business Olan Mills does. Shook adds: "In the adult portrait market, Olan Mills is so big, with such good name recognition, there is no competition other than mom-and-pop studios." O.M. Two says: "We'll let [the others] fight it out in the preschool market, which is under 30% of our sales. We may lose a tad of market share."

Unlike some of its competitors, Olan Mills remains private. O.M. Two owns 51% of the company; Charles George owns 49%. But the day of family ownership may be waning. None of O.M. Two's and C.G.'s five children—aged 23 to 32—works in the company; their only involvement is in a "cousins' council" briefed regularly by senior management. O.M. Two is cutting back his involvement, and C.G. is in poor health. In 1990 the brothers elevated longtime employee Hampton Johnston to the presidency.

"There are no plans to sell this firm or take it public," says O.M. Two, "but we'd never rule out any possibility." It looks like more of a probability with every passing year.

Creativity

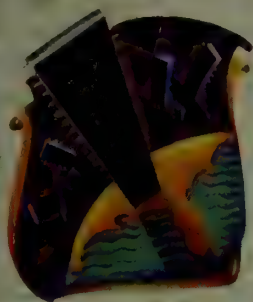
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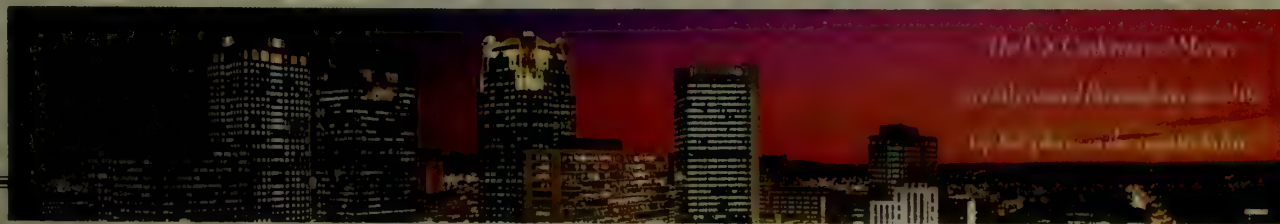
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The numbers aren't always what they seem when you're investing in Latin American stocks.

Free-style accounting

By Roula Khalaf

THERE ARE LOTS of good reasons investors should be interested in Latin American stocks, but they would do well to understand that disclosure south of the Rio Grande isn't quite the same as disclosure to the north.

Last March Mexican cement giant Cemex raised \$600 million in a private placement. The company's offering prospectus said the funds would be used to pay down debt. But it kept the cash instead for months and suddenly used it to help pay for a \$1.85

billion purchase of Spain's two largest cement makers. Mexican disclosure is somewhat lax, so Cemex (nearly \$2 billion in estimated 1992 sales) didn't think it needed to reveal its strategy change before the purchase was announced.

Some investors, who had bought Cemex as a play on Mexico, were infuriated and beat the company's over-the-counter American Depositary Receipts down to a low of \$18 last summer from a high of \$42 in

late 1991.

Cemex is also notorious for reporting huge nonoperating earnings with little explanation. Digging deeply into the footnotes of Cemex's 1991 annual report, for instance, you might eventually discover that a third of the company's \$495 million pretax income came from a gain on the sale of treasury shares. In Mexico, a company buying back its stock and reselling it for a profit can book the gain. That's no-no under U.S. accounting rules.

Welcome to the world of global investing. Warns Harvard business school accounting professor David Hawkins: "Accounting in emerging markets is a potential mine field."

Cemex may or may not have made a good buy in Spain, but the experience shows how little some foreign companies—especially in developing countries—feel they need to level with shareholders. Emerging markets now take 30% of all U.S. net purchases of foreign stocks, compared with 15% in 1988. All told, there are 73 Latin American ADRs traded in the U.S. many on the pink sheets, up from just

WHO'S USING INVESTMENT PERFORMANCE TO MAKE LIFE BETTER?

*Variable life insurance policies are issued by Equitable Variable Life Insurance Company, a wholly-owned subsidiary of The Equitable Life Assurance Society of the United States. All rankings are for periods ended 12/31/92, as reported in Morningstar's Variable Annuity/Life Performance Report. The Incentive Life Aggressive Stock Fund ranked 1 out of all 699 funds rated over the 3-year period, 1 out of 34 in its category over the 3-year period and 3 out of 18 over the 5-year period. Our Global fund ranked 2 out of 29 in its category over the 3-year period and 1 out of 10 over the 5-year period.

few five years ago. Roughly 70% of the money is going into Mexico, but Argentina, Brazil and other countries are attracting U.S. investors' dollars.

Only if foreign companies raise money in the U.S. or are listed on a major exchange do they have to comply with U.S. accounting rules in their offering statements. Otherwise, foreign rules apply. And the differences can be significant. For example, don't compare a Mexican bank's earnings with a U.S. bank's. In Mexico banks don't have to record or amortize goodwill. Charles Brandes, of Brandes Investment Management in San Diego, figures if Grupo Financiero Banamex Accival S.A. were amortizing goodwill as American banks must, its earnings would be 17% lower.

Many Latin American companies adjust their numbers for inflation. That's good in theory, but it can lead to confusion. "Inflation accounting is only as reliable as the indices companies are using," warns Patricia McConnell, accounting expert at Bear, Stearns.

Analysts, for instance, are suspi-



cious of the inflation index used in Brazil. For good reason. In June 1991 the Brazilian government suddenly announced that companies had used the wrong index in 1990. Instead of an 800% annual inflation rate, the government now said companies should have adjusted their numbers according to different indices to reflect an 1,800% inflation rate.

So Duratex, a building materials manufacturer, was forced to reduce its 1990 \$25 million pretax earnings by

an additional \$3.3 million.

Inflation has been a constant problem in these countries. But Venezuelan steelmaker Sivensa, which trades in the U.S. through an over-the-counter ADR, doesn't adjust for inflation. At the end of 1991 Sivensa had profits of \$26 million on revenues of \$500 million. But Venezuelan inflation runs around 40% a year, so who knows what the real numbers are?

Many Latin American public companies are still controlled by families, and it's not unusual for money to be siphoned off to the control group. That's what some U.S. investors suspect recently happened when Argentinean food processor Molinos Rio De La Plata unexpectedly reported a loss in the year ended June 1992. It turns out that millions of dollars in consulting and other fees had been paid to the holding company, which is the majority owner.

Of course, no risk, no reward. But before leaping into foreign stocks, especially Latin American stocks, remember you are in only partly charted territory.



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They may give you a headache, but Burger King's MTV-like commercials are doing what they're supposed to.

Look who's coming to dinner

By Gretchen Morgenson

IT'S THE KIND OF THING that gives adults migraines, but the kids love it. Burger King's commercials have a jumpy, jiggly music-video style. *Saturday Night Live* nominated them for one of 1992's worst annoyances.

Burger King can live with such criticism. The company says the cam-

paign is aimed at 18-to-34-year-olds, but it also clearly appeals to teens, who have \$27 billion in discretionary income and spend a lot of it on fast food. Regardless of whom it's aimed at, people of all ages are coming to dinner at Burger King. "Whether people love it or hate it, BKTV gets

through," says James Adamson, chief operating officer worldwide of Burger King Corp.

The BKTV television spots are the work of agency D'Arcy Masius Benton & Bowles. They feature MTV star Dan Cortese interviewing young Burger King customers chowing down on a new dinner menu and being wowed by new table service.

Jerome Ruenheck, president of Burger King's U.S. franchisee association, says dinner sales jumped as much as 20% in certain markets when the raspy ads first broke in October. Even now, after the freshness of the campaign has worn off, sales remain high.

According to *Nation's Restaurant News*, a trade magazine, Burger King is gaining on archrival McDonald's. Among the top domestic sandwich chains, BK's market share came close to 17% last year, up from 15.9% in 1990. During the same period



James Adamson, chief operating officer worldwide of Burger King
Dinner at Burger King? Don't laugh; a new menu and table service are winning over some mighty tough customers.

McDonald's share dwindled from 6% to 33%. Systemwide sales growth Burger King in the U.S. came in at 6% in 1992, more than double McDonald's increase of 1.5%. It's been years since Burger King—bought in 1989 by Britain's Grand Metropolitan Plc. as part of the Pillsbury buyout—has bested McDonald's in almost any measure of performance. In the fiscal year ended last September, Grand Metropolitan reported a 9% increase in operating income at the \$1.4 billion (sales) fast-food subsidiary.

Dinner is a notoriously tough gamble in the fast-food business; about 5% of the \$76 billion Americans spent in fast-food outlets last year changed hands between 11 a.m. and 3 o'clock. When it comes to dinner, fast-food outlets go up against a much broader range of eating choices—and often they lose. Dinner business is what Burger King is after.

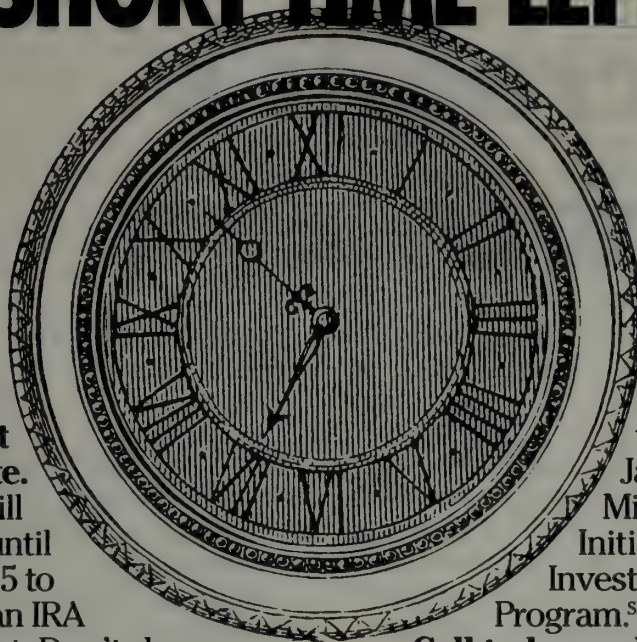
Five months ago it rolled out its new evening menu of fried chicken, shrimp, steak sandwiches and baked potatoes and broke with tradition by offering table service. While customers await delivery of their \$2.99 meals, they munch on free popcorn and help themselves to soft drinks and refills.

In its pursuit of evening traffic, Burger King seems to be leading. McDonald's, which was trying out its own evening offerings of pizza and chicken, has pulled its trial menus from stores for additional work.

Clearly Burger King is getting people's attention with the new menus and the new campaign. Its advertising used to look like a lame imitation of McDonald's, which does the heart-string-pulling stuff a whole lot better. The few attempts at more daring advertising have been mediocre at best and, in some cases, even downright embarrassing. The nadir was a mid-1980s campaign built around a pathetic customer named Herb the Nerd.

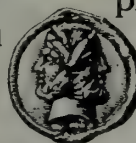
James Adamson took over as chief operating officer about the time the campaign broke. He learned about marketing at a tough school—the rag trade. He worked for the Gap. Trendy retailers like Gap know that there is a show biz side to retailing. "We're in a business that's fun," says Adamson. "We wanted to quit making it rigid, staid and serious."

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Novell looks invincible.
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Microsoft's dark shadow

By Julie Pitta

NOVELL Chairman Raymond Noorda has a nice-guy image in the press and a great-guy image on Wall Street—which values his \$1 billion (fiscal 1993 estimated sales) company at \$9 billion. The latter part of his image is about to be severely tested.

Novell's business, in which it has a 70% market share, according to the Gartner Group, is software for networking. Novell's NetWare links personal computers together so that they can share printers and databases. It has avoided a head-on confrontation with mighty Microsoft so far because Novell's software worked well with Microsoft's. Novell's NetWare is typically deployed on networks of PCs using Microsoft's operating system software.

The spirit of peaceful coexistence between the two companies may soon be over, however. A new version of Microsoft's popular Windows operating system, Windows NT, could render NetWare obsolete. NT has networking capabilities built in.

"NT scares me to death," says Drew Major, Novell's chief scientist. "Microsoft wants to own the world, and we're the one part that they don't have yet."

Although Microsoft has had a product similar to Novell's, called LAN (for local area network) Manager, it never worked as well with Microsoft's own operating systems as Novell's NetWare did. Windows NT, the culmination of four years of programming, evidently won't have that deficiency. Major recalls trying out LAN Manager four years ago and smiling, "They did it wrong, and they don't know how to fix it." He's not smiling

now, after a preview of NT. Confirms Dennis Schneider, Digital Equipment Corp.'s marketing director, "It runs like a top."

Users find it appealing to buy a single piece of software that combines networking with the usual operating system features, standard in mini and mainframe computers. "There's a lot of merit to having one vendor that can provide a seamless integration in the PC," says Craig Goldman, the chief information officer at Chase Manhattan Bank.

Microsoft is trying to get new computer buyers hooked on NT from the start. Already, 450 hardware manufacturers offer Microsoft's MS-DOS as a preinstalled feature on their machines. Just under 150 sell Windows in the same way. And Microsoft aims by midyear to get these PC makers to buy licenses to preinstall Windows NT. At that point the only additional software that is necessary for a network to run is one copy of a server version of NT that goes on the host computer.

Hardware makers figure they have to put some operating system in their machines before shipping them, so it might as well be NT. Novell can't match that foot-in-the-door strategy.

Here's something else that is worrying Novell. Both Novell and Microsoft are angling to capture the software business of the many large firms transporting workloads from mainframes to networks of desktop machines. In this business, Microsoft is at an advantage. NetWare started out as a networking tool for very small groups of computers, typically 10 to 15. Microsoft's NT, in contrast, has been designed from the beginning



with larger systems in mind. NT, for instance, can run on machines with more than one processor; NetWare can't yet.

There's furious work at Novell to finish a new version of NetWare, already a year late, that would link 1,000 users in different geographic locations into a single network. That is more than NT can do. In the meantime, Noorda and his company have taken on a distinctly defensive posture about that juggernaut Microsoft.

"Microsoft would like to consume the business, if they can't do that they'll inhume it, or subsume it," Noorda says testily. Noorda has made statements against Microsoft to Federal Trade Commission staff members, and he is said to be considering a private antitrust suit charging Microsoft with unfairly leveraging its near-monopoly in PC operating systems to take over applications like networking. Novell has even threatened to withhold its software source code from Microsoft so that it will be more difficult for Microsoft to ensure compatibility with Novell. Sounds like a kamikaze.

Noorda, normally the politest of executives, says that he has stopped taking phone calls from Microsoft Chairman William Gates: "The conversations have been very one-sided and unmanageable." Admits Michael Maples, a vice president at Microsoft, "Things are pretty strained between

us right now."

You can't blame Noorda for being upset. Unless antitrust law is in for a big Clinton-era resurgence, Microsoft seems very much to have the upper hand here.

Noorda's defensive moves include buying Digital Research, which makes a clone of Microsoft's MS-DOS operating system, and, more recently, paying AT&T about \$260 million in Novell stock for an operation that sells Unix, a 20-year-old operating system that has the power NetWare lacks; Novell hopes it will be a rival to NT.

So far, not so good: Sales of Digital Research's DR DOS have declined since Novell took it over. Unix, for all its success among engineers and academics, has yet to capture much corporate business. "We're not using Unix because we don't need another operating system," says Sheldon Laube, national director of information technology for Price Waterhouse. Laube has standardized on Microsoft Windows and is testing NT.

Some Novell insiders seem to have taken the threat personally. Eleven of them sold a total of 1.3 million shares last year.

Novell remains nervous but determined. "If Microsoft loses in the networking world, they have other things to fall back on," says Novell's candid Drew Major. "Novell doesn't. They won't go out of business. We will." ■



Rod Westenberg

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COMMENTARY BY RICHARD A. SHAFFER



Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter*.

FROM THE BACK of a taxi the other day, I sent a note to Bill Clinton. These days you not only can send ordinary letters to the White House, you can send electronic mail, including the latest version that operates over the airwaves.

My note to the President, which I sent just to see if it could be done, was one of numerous tests I have been running recently with a \$995 device called the Viking Express, a black notebook that contains a little computer and an attachment that enables it to communicate with other computers via radio. It has its flaws, but it can be quite a time-saver, and using it has prompted me to think about a stock that many American investors overlook: L.M. Ericsson, the Swedish telecommunications giant.

Ericsson is one of the partners behind the Viking Express, a pivotal product in the development of the mobile computing industry. It is the first wireless electronic mail system to be aimed at professionals and executives on the go. To be sure, you can send wireless E-mail from a modem-equipped notebook computer attached to a cellular phone, if the phone is of the right variety. But the Express gadget has it all in one package: keyboard, screen, modem, radio.

The Viking Express works only in

some cities, and even there, coverage can be spotty. It does, however, keep me in touch on the road. The other day on a trip to New York from Santa Fe, I had a 45-minute connection in Dallas—too little time for more than a quick call or two, even with a cellular telephone. On the flight, however, I wrote a half-dozen brief memos on the Viking Express. When the plane landed in Dallas, I turned on the radio and left it on while the plane taxied to the gate. I hurried to the next gate, and my connecting flight taxied out and took off. During that time, the Viking Express sent my messages and received a dozen or so others, which I read in the air.

The Viking system works because its developers forged a close alliance involving BellSouth, Ericsson, General Electric, Hewlett-Packard and a private San Francisco-area company, RadioMail. BellSouth, Ericsson and GE are involved through their RAM Mobile Data joint venture.

A good deal of noise is being made by the cellular industry about its potential as a wireless data carrier. As I noted in the Jan. 4 column, cellular has many advantages—notably the ability to combine wireless voice and data channels in a single nomadic device—but also the problem of coordinating competing companies and retrofitting a large base of existing equipment. The fact is that for at least the next 18 months, it's likely that the direction of the fledgling wireless industry will be set by RAM Mobile Data and its chief rival, Ardis. The Ardis network, which dates to 1983, is a joint venture between IBM and Motorola. Although the cellular telephone industry has big plans, only RAM and Ardis are now operating nationwide two-way digital networks.

Ardis and RAM have adopted strategies that reflect major differences in customer focus, marketing approach and even in the underlying architec-

ture of their networks.

The focus at Ardis remains specialized: It concentrates on developing custom devices that link field-workers to headquarters. With about 75 corporate customers and some 35,000 users on those networks, Ardis is by far the largest provider of wireless data services, with annual revenues estimated at \$45 million to \$50 million. In addition to being the industry's leader in customers and revenues, Ardis also has a big lead in installed equipment, with 1,300 transmitters in 400-plus metropolitan areas.

Ardis is introducing new communications products, including software to create a wireless mail system much like RAM's. Prosperity for Ardis won't do much for owners of IBM, because of the company's many other problems. Owners of Motorola should benefit, although that company already is well recognized for its leadership in mobile communications.

RAM, through the Viking Express and related future products that will work with ordinary personal computers, has a chance at becoming a dominant player. That would be good for BellSouth and General Electric, as partners in RAM. The third partner in RAM, however, may be more interesting for investors because it isn't as closely followed in this country.

Ericsson's results have been unremarkable of late because of slow growth in its largest business, central office switching equipment, and economic and currency problems in Sweden. As a result, its shares, which trade as American Depositary Receipts in the U.S., have been hovering in the high teens to mid-20s for the last several months. Ericsson, however, is rapidly becoming an increasingly important force in digital wireless communications, preparing for the day when millions of people are sending messages over the airwaves, even from the backs of taxis.

**SHE WATCHED IN
HORROR AS
THE TRANSATLANTIC
FLIGHT VANISHED
INTO THIN AIR.**

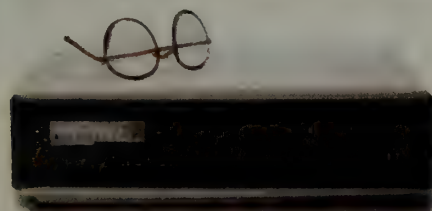
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What levitates technology companies on Wall Street? Look at the case of Valence Technology and the curious merry-go-round of insiders, underwriters and journalists that keeps its stock spinning.

Story stock

By Jeffrey Young

WANT TO GET ON the tech stock bandwagon? Here's an exciting company for you: Valence Technology, a San Jose, Calif. outfit that is developing a rechargeable lithium/polymer battery. Valence's battery packs more energy per pound than the well-established nickel/cadmium alternative, and it costs much, much less to manufacture. So says an "independent" scientist who has evaluated the technology. Valence has landed a \$100 million order from Motorola—so say news reports. And Valence, though now in the red, will be a thriving company, earning \$3.25 a share in 1997. So says a stock analyst report.

If you believe all that, you must be one of the investors who have bid Valence stock up to outlandish levels. At a recent 19 a share, Wall Street is putting a \$310 million valuation on the company—a company whose main asset, besides \$69 million in cash remaining from proceeds of stock offerings, is an unproven technology purchased for \$2 million (plus royalty rights) from Mead Corp.

And if you believe the story that goes with Valence, you probably don't know about these drawbacks: The Motorola contract is much less than meets the eye; the largest shareholder in Valence has been involved in two other Silicon Valley startups that failed; and the outside scientist who evaluated the battery just took Valence insiders' word for it in judging manufacturing costs and durability.

No question, the folks at Valence can put on a good show. Their prototype battery is a flat, pliable sheet of plastic and metal foil layers, altogether about a quarter-inch thick.

Lev Dawson, chief executive and the second-largest shareholder (with

a stake now worth \$67 million) is sitting at the head of a conference table with a grin on his face and a pair of scissors in his hands. Dawson, 54 years old, pulls out a small flashlight. "This is the same demonstration I've given in investment houses all over the country—you name 'em," he says. He attaches two alligator clips that snake out of the hollow flashlight to two terminal tabs that stick out of the battery. The flashlight bulb flickers to life. Then he takes up the pair of scissors and slices across the plastic package, directly through the battery. The bulb continues to shine.

"Try that with nickel/cadmium," he crows.

Very impressive in the boardroom, although the audience may forget to ask how long the battery will keep

working when exposed to the air. (Not long, it turns out.) More important is that investors don't look behind the road show to what is really energizing this stock: a triad that includes insiders unloading shares for a price hundreds of times what they paid, an underwriting firm that pulls in fees for helping them do that, and journalists who are only too willing to take at face value the boastful pronouncements of the company's publicity department.

As an experiment, compare these three documents: a Montgomery Securities buy recommendation on the stock from last May, the government-sanctioned prospectus that came out with a 4.6-million-share offering in November, and a Valence press release issued in December. It's sometimes difficult to tell the three documents apart.

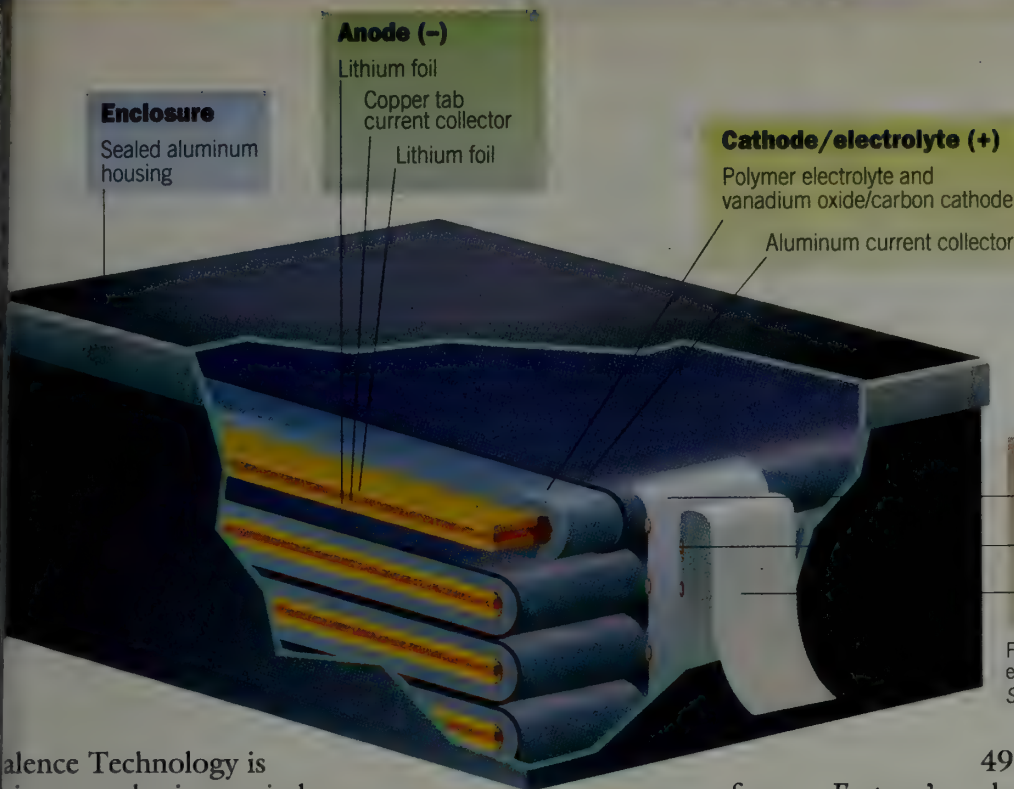
The press release, for example, contains a scientific-looking diagram of the lithium/polymer battery, marred by an arithmetic error on the dimensions of the battery's layers. Now look at the bullish report from Montgomery analysts Thomas Lloyd-Butler and Peter McGratty. It contains the same diagram, complete with the same error. And then there's the authoritative prospectus—with the same diagram and the same error.

The Montgomery analysts say that



Valence Technology Chief Executive Lev Dawson showing off his battery

"Try that with nickel/cadmium."



The novel rechargeable

Valence Technology's lithium/polymer battery works beautifully in the lab. But will it last? Can it be made cheaply? The world doesn't know.

Contacts

- Cathode interconnects
- Interconnect bonds
- External nickel contact

Folds are shown with exaggerated thickness for clarity
Source: Valence Technology, Inc.

Valence Technology is going to rake in precisely \$36,050,000 in revenues in fiscal 1997. How do they know that? Well, the battery will sell like the dickens because it's much more compact and cheaper to make than competing batteries. The manufacturing cost of the Valence battery is going to be only 7½ cents per watt-hour of energy capacity, says the Montgomery report, a tenth the figure for nickel/cadmium batteries, the current standard in computers, telephones and the like. The battery keeps a charge better than nicads, says the report, losing 0.5% of its juice per month, against 5% to 20% for the nicad.

And how do the analysts know all this? They got it from Digby Macdonald, a materials science professor at Penn State, described as an "independent consultant."

How does Macdonald know about the Valence battery's performance and cost? He spent a day watching Valence scientists record measurements. He didn't take away a sample for testing, so he had to take their word for long-term performance measures. The cost projections are also from inside Valence. Independent? Montgomery Securities paid Macdonald for his analysis, but he won't say how much.

If you don't put much stock in analysts' reports, maybe you will be persuaded by the glossy reprints distributed by Valence and its public relations firm. They include an item

from *Fortune's* 1993 Investor's Guide, quoting the Lloyd-Butler sales projection for 1997 and reciting as fact the Valence claim that its battery can be recharged 300 times and loses only 0.5% of its charge per month when left on a shelf.

What about the Motorola purchase order, which boosted the stock 4⅜ points when it was announced in December? Look closely. It's not the same as, say, a purchase order from GM for tires. Motorola merely agreed to buy batteries if Valence can make them cheaply and if the batteries work. If they don't work, Motorola isn't on the hook for a dime.

Is Montgomery Securities an independent source? Judge for yourself. Montgomery got the lion's share of \$7 million in total underwriting fees for two stock offerings, one last May at 8, and another in November at 18. It may also be earning substantial spreads or commissions for helping insiders dribble out small amounts of their holdings to the public under the Securities & Exchange Commission's Rule 144. Immediately after the November offering, 4.7 million additional insider shares were eligible for sale, subject to Montgomery Securities' permission.

Most of the proceeds from the two underwritings went into Valence's coffers. But the largest shareholder, Carl Berg, with originally 33% of the shares outstanding, unloaded

495,000 of them in November, shares he bought at a penny each. He didn't sell in the first offering, but the company used \$6.2 million of the proceeds to repay Berg loans he made to Valence to get the company going.

The prospectus omits some interesting details on Berg, 55, a California real estate developer and high-tech investor. He was a director and significant shareholder in Actrix, a closely held computer maker that went under in the mid-1980s. Berg was also an insider in International Memories, Inc., a hard-drive company. In that capacity he was accused of securities fraud in a lawsuit filed by Minnesota Mining & Manufacturing Co. in 1978, a case that was eventually settled. IMI shareholders wound up with stock in Corvus Systems; Berg became Corvus' largest shareholder and creditor. Corvus filed for Chapter 11 in 1988. Berg is now the largest shareholder in Integrated Device Technology, a semiconductor firm that lost money in its last fiscal year. It has paid Berg at least \$20 million in real estate transactions over the past four years.

The pattern seems to be this: Outside investors may do poorly, but Berg usually gets his money out. Says Berg: "I like big rewards and big risk. Probably no one else would have put their money in [Valence]."

A case can be made that the technology stock rally of the past year still has a ways to go (see p. 114). Maybe so, but investors ought to be a little choosier.

Buy computer stocks

COMMENTARY BY MICHAEL GIANTURCO



Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm that specializes in science and technology stocks.

THE RALLY in technology stocks began last October and now seems well established. Time to cash out? Not at all. But if you are buying it is a good time to begin shifting your attention from semiconductors to software, and—believe it or not—to computer stocks.

Two basic cycles underlie the technology stock market: the calendar cycle and the technology business cycle.

The calendar cycle in tech stocks has a lot to do with the infamous "January Effect"—the tendency of small-company stocks to bounce between late December and early January. In the case of small technology stocks in particular, the cycle, I think, is a little bigger. There's a tendency for prices to climb between late November and late January. During the past three years, the Pacific Stock Exchange Technology Index has climbed an average of 16% from Nov. 30 to Jan. 31.

If all that mattered were the calendar, then it might make a lot of sense to dump tech stocks now. You might even anticipate a January Aftereffect—a period between February and May, when traders ultimately take profits and the stocks plateau. But I never had much luck with preprogrammed calendar selling, and I don't bother with it anymore. As often as not a summer rally came along to

carry aloft the very stocks I had so craftily sold in May. In my experience, the calendar cycle is useful only in that it tells us to buy technology stocks in anticipation of the January Effect. This almost always works. Otherwise the calendar is a rather fuzzy and unreliable basis for trading.

Let's turn now to the technology business cycle. It is not as simple and as seasonal as, say, grain prices. But it does follow certain patterns. This observation has been attributed to an executive at Dataquest in San Jose, who based it on data accumulated over the years in market-research studies for technology companies. His insight is this: When technology business improves, it is most noticeable at first in the order books of the semiconductor companies. The strengthening business cycle next blesses the computer companies—and then, lastly, benefits the software companies. The stocks follow suit.

Viewed as a clock on this business recovery process, the technology stock market is very easy to read right now. The rally of this fall and winter has sent semiconductor stocks zooming. This is the normal first step in a technology stock rally, and it tells us it is still very early in the game for technology stocks.

The next logical move up should come in computer stocks, and to some extent it is already under way. We own and like Apple (recent price, 57) and, among the smaller outfits, Zeos International, the clonemaker. After a long, discouraging year in 1992, Zeos stock has suddenly doubled in price over the past two months, to a recent 6.

Before I bought Zeos stock I bought a Zeos computer. Clones are clones—until you start shopping for one. Then you notice very quickly that there are, after all, clear engineering differences among supposedly commodity-grade computers. Zeos'

engineering and quality advantages are small—but taken together they clearly distinguish the Zeos product from similarly priced machines.

Many savvy buyers find good value from second-tier cloners like Zeos and Gateway. They tend to avoid both the name computers and the legions of shabbier knockoffs.

Some industry observers have conceded the future of the PC compatible business to Dell and/or Compaq. Maybe they will be proved right, ultimately, but here and now investors in Zeos just doubled their money, and I think there is another double in it.

What about IBM? The long-term investors who used to love this stock for its dividend have clearly turned away from it, and they will not be eager or early to return. So the fate of the stock is now in the hands of the traders. Unlike investors, who concentrate on intrinsic valuations of stocks, traders use occult rules based on trend lines and oscillators and such. Now, these rules are not necessarily rational, but they are nonetheless fair predictors of what the traders, as a group, may be expected to do. In trading terms, IBM is forming a bottom at \$50. It is a "trampoline bottom," meaning the stock will bound up and down around this \$50 baseline. My reading: Do not hesitate to buy it as a speculation at below \$50.

As the business recovery progresses, software stocks will be favored next after computers, and it is not too early to buy depressed software issues like Lotus (as this column noted on Feb. 1). When the software stocks have run up through a big rally—a rally of the magnificent proportions we have just now seen in semiconductors—then that will be the time to take profits in all technology stocks. And not until. It seems we are probably a year or more away from any such major top in the technology business cycle.

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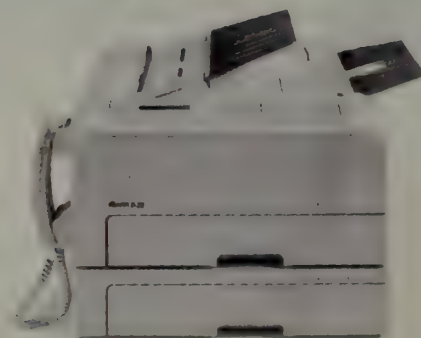
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Fergie and me

By Dana Wechsler Linden



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Princesses Eugenie and Beatrice, with mom Fergie, hit Klosters' slopes
Contrary to expectations, the wild royal was very well behaved.

OUR DESTINATION, the Swiss mountain village of Klosters, is the Prince of Wales' favorite ski spot. On the plane from New York I was daydreaming out loud. Would I catch a glimpse of royals on the slopes? My husband rolled his eyes patronizingly. Why should anyone be impressed by royals?

He soon changed his tune. The Duchess of York arrived in Klosters with her two young princesses a few hours after we did. And, thrill: The royal party, including a girlfriend of Fergie's, two British security men and a nanny for each child, checked into the Walserhof, the same tiny hotel where we were staying.

Over the next week my husband

and I had the same ski instructor as the royal children, we had meals in the same small dining room as Fergie did, we even ended up at the same New Year's Eve party. Even my royalty-scorning husband was impressed.

The hotel's starched but polite proprietress told us about our famous fellow guest, but we'd have known something was up anyhow from the paparazzi camped outside the hotel.

Off magazine covers, Fergie loses a lot of her glamour. "Just a cute redhead," said my husband, who also kept me in line by regularly admonishing, "Don't stare!" I noticed him snatching surreptitious glances.

She was very much on her good behavior. As she and a friend left the

restaurant one evening, Fergie bestowed warm and profuse thanks to the staff, in a crisp, upper-class British accent. Breakfast every morning was the same routine. We would be sitting over cups of coffee and bowls of *birchermuesli*, the Swiss cereal, when Fergie, sleepy-eyed and clad in plain gray stretch pants and an oversize T shirt, would sit down at the large table next to us. Seconds later, in would bounce her two daughters, dressed to kill in coordinated outfits with so many ribbons and buttons and braids that it must have taken hours for their nannies to dress them.

We observed only one note of royal discord. At breakfast one morning, Princess Eugenie, nearly 3, blurted out: "Mummy! Daddy bad! He can't come on holiday!" Fergie, who left Prince Andrew in early 1992, was silent.

Oh, yes, I was supposed to write about the skiing. Klosters, nestled in the mountains about 95 miles southeast of Zurich, in the German-speaking part of Switzerland, is a classic cluster of chalet-style houses and a main street centered on a little railway station. The town sits in a valley, with craggy, snowy peaks towering above it on all sides.

Klosters' famous Parsenn, a luxuriously wide field of snow some 8 miles long, is one of Europe's longest ski runs. Even an intermediate skier with a fair amount of stamina can ski on the Parsenn all the way from a peak above the neighboring town of Davos down nearly to the center of Klosters. You can stop along the way at one of the mountain huts with outdoor terraces for some hot chocolate or even hot spiced wine.

A trip to Klosters starts with a three-hour train ride from Zurich's airport, changing trains twice along the way. Of the dozen or so hotels in the village, our Hotel Walserhof is Klosters' most elegant. The 21-bed hotel (telephone: 81-69-42-42) is closer to a cozy chalet than a grand European hotel, but with the same attention to detail, right down to the gossamer bed sheets.

Our room, at \$200 a night, was inexpensive by European luxury standards, but what we saved on bed we more than blew on board. Dinner for two at the Walserhof's renowned res-

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restaurant easily costs as much as the room itself. A week for two, not counting airfare here, including the skiing, can easily set a couple back \$3,000.

Another good hotel choice is the Alpina Hotel & Guesthouse (telephone: 81-69-41-21), which has the advantage of being directly across the street from the gondola that takes skiers up the mountain. Or the Wynegg (telephone: 81-69-13-40), with rates about half those at the Walserhof or the Alpina.

You needn't be an expert to enjoy yourself here, because of the wide slopes. The biggest danger, actually, is getting lost. The runs aren't as well marked as in the U.S. One day, skiing without a guide, we spotted what looked like a nice little trail and ended up instead plowing for about a half-

hour through deep, ungroomed powder and mud before finding our way back to a marked trail.

Evening entertainment in Klosters is dinner. You'll be told there are a few nightclubs, but when we wandered into one, it was practically empty. Dinner options? Prince Charles is said to favor the restaurant in the Hotel Wynegg—an ultracasual place that specializes in fondues. On Wednesday nights there's live, traditional music (a singing trio with guitar, bass and accordion) at the Höhwald, a family restaurant just outside of town. You can get there by horse-drawn sleigh.

We celebrated New Year's Eve at the Walserhof's formal, multicourse dinner with dancing. Fergie was there, sitting at a large corner table with her girlfriend, and the bodyguards and ski guides we'd seen hang-

ing around all week.

When dancing was in full swing Fergie was still seated and looking downright unhappy. I urged my husband to ask her to dance. "No way," he said, betraying perhaps fear of rejection more than democratic scorn for royalty.

Okay, okay. Did I actually meet her? Kind of. I was reading a detective novel in the hotel lobby. She stopped as she passed by and asked sympathetically, "Why do you have to read so much?" Whatever their virtues, the ladies and gentlemen of Windsor are not known as intellectuals.

For information on snow conditions and accommodations call the Swiss National Tourist Office: (212 757-5944). But it's doubtful they know when the royals will be in town.



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Many American autographs—even those of legendary figures—are still surprisingly affordable. But watch those prices take off.

Buyer beware, seller too

By Christie Brown

WHAT WOULD YOU GUESS an autograph by George Washington, Abraham Lincoln, Thomas Jefferson or Theodore Roosevelt is worth? The answer might surprise you. A document without great historical significance but signed by the country's first President can be bought for about \$6,500; one by Lincoln goes for \$3,500. Jefferson's elegant signature on, say, a land grant, costs about \$2,000. And a letter from Roosevelt sells for as little as \$250.

"Most people think these things are all in the National Archives or the Smithsonian," says autograph dealer James Blanchard. "This market is incredibly undervalued."

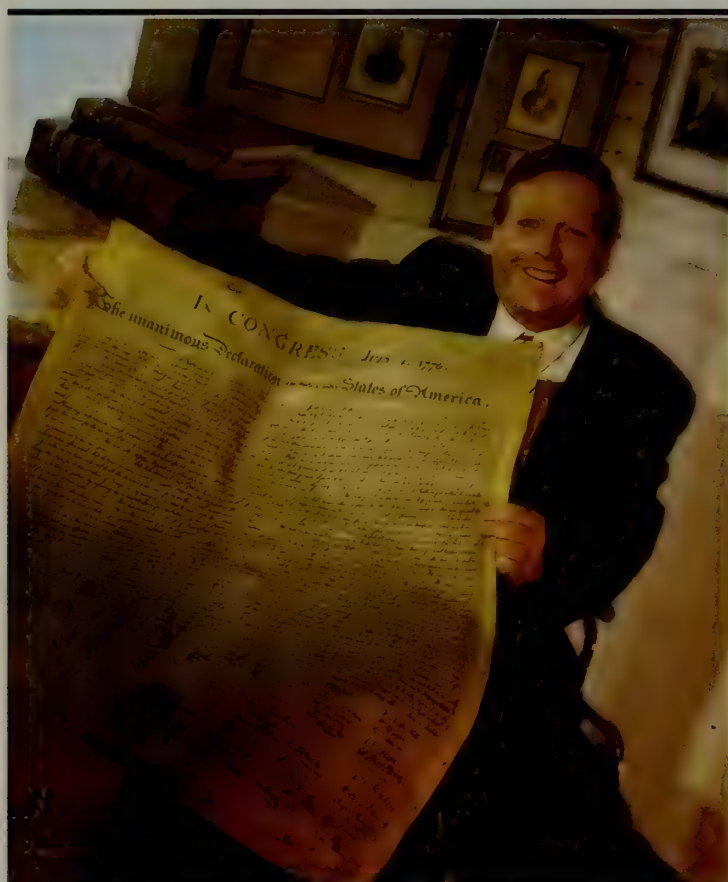
Blanchard hopes to change that. Since he opened Jefferson Rarities in 1990, an autograph dealership in Jefferson, near New Orleans, Blanchard has invested about \$4.5 million to accumulate some 7,000 autographs and 90,000 newspapers, most published before 1870. His goal is to use

direct mailings, television advertising and other marketing tools to create a mass market for autographs. Of his huge inventory of antique newspapers, most of which sell for under \$100, Blanchard says: "We can get a lot of people interested in autographs and manuscripts with the lower-priced newspapers."

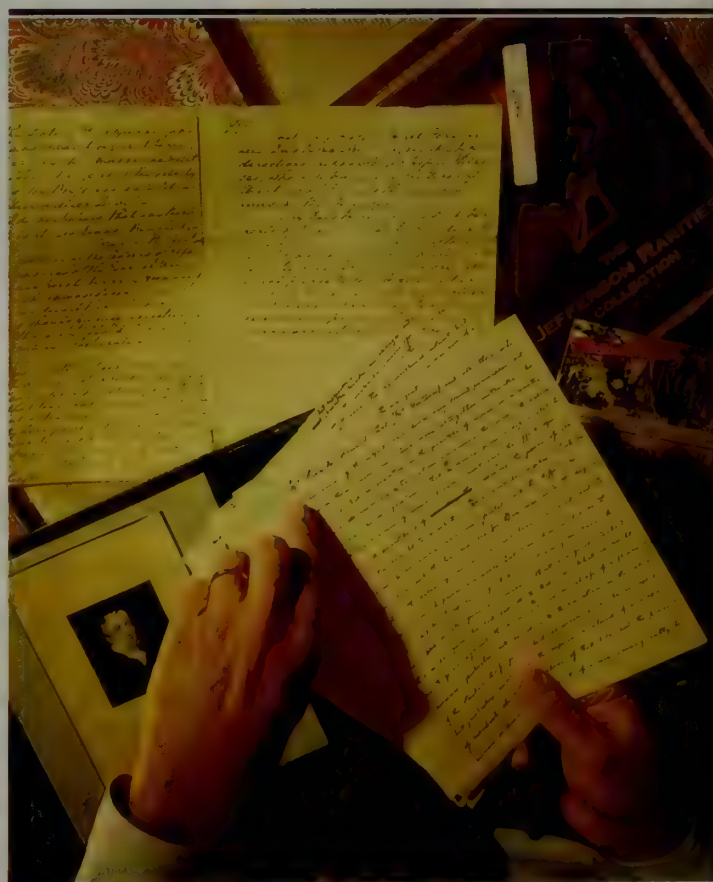
Blanchard has already sent out over 200,000 pieces of direct mail—catalogs, letters and newsletters—to potential autograph clients. The tone is sometimes more Crazy Eddie than J.P. Morgan. "'George Washington hanging on your wall—you'll be the talk of the town,'" trumpets one letter. Another pitch letter also includes charts and graphs showing dramatic appreciation of prices.

Next on Blanchard's agenda: television. He recently began selling Jefferson Rarities autographs on the home shopping network Valuevision, which reaches 10 million homes. "I want to broaden the market, not cheapen it," he insists.

The interest Blanchard is whipping up is just one of the reasons the classically sleepy field of American



Dealer James Blanchard of Jefferson Rarities Adding heat to a sizzling market.



Jefferson Rarities' merchandise Coming soon to a home shopping network.

tographs—which includes letters, manuscripts and documents—has recently become very hot. Prices for most autographs of major historical names have more than doubled in the last three years alone.

Some big collectors have so been creating excitement at the high end of the market with aggressive buying. Leading the pack is Lewis Lehrman, who ran for governor of New York in 1982, and Richard Gilder, president of the Wall Street brokerage firm Gilder, Gagnon, Howe & Co. In the last few years the two have joined forces to amass more than 2,000 historical American manuscripts at an estimated cost of \$30 million.

Working as a team, Gilder and Lehrman have recently bought important letters of Washington, Jefferson, Lincoln, John Adams and Ulysses S. Grant, as well as a page from Washington's first draft of his inaugural address. Says Robert Parks, a curator of autographed manuscripts at New York's prestigious Pierpont Morgan Library, where Gilder's and Lehrman's pieces are on an evolving exhibition: "It's one of the best private collections and possibly in its way to being the best."

Prices for autographs vary dramatically, depending on the significance of the document signed. Gilder and Lehrman are after the best. Last December they bagged a real trophy: a single page written by Abraham Lincoln that is the earliest known formulation of the famous "house divided" speech, delivered by Lincoln at the Illinois Republican State convention in 1858. It reads in part: "A house divided against itself cannot stand. I believe this government cannot endure permanently, half slave, and half free." The collectors paid over \$1.5 million for the page at Sotheby's—a record auction price for an American manuscript.

Most of the dealers are watching

Sotheby's

Why, Kansas, is not the whole, nor a
 bits of the real question—
 "A house divided against itself cannot
 stand."
 I believe this government can not endure
 permanently, half slave, and half free—
 I confess on the basis of a year ago, and
 subsequent developments have but confirmed me.
 I do not expect the Union to be dissolved.
 I do not expect the house to fall; but
 I do expect it will soon be divided. It
 will become all one thing, or all the other. Either
 the opposite of slavery will prevail, or the principles
 of it, and put it in course of ultimate extinction; or
 its advocates will push it forward till it shall be
 come with us, as all the slave, slave as well
 as free. Do you perceive? Strongly the Divine
 presence, and then see, how little, even now, remains
 to be done—
 That decision may be reduced to three points—
 the first is, that a negro can not be a citizen—
 that point is made in order to deprive the negro
 in every possible event, of the benefit of that provision
 of the U. S. Constitution which declares that:
 "the citizens of each state shall be entitled to
 all privileges and immunities of citizens in the
 several states."
 The second point is, that the U. S. Constitution pro-
 tects slavery, as property, in all the U. S. territories, and
 that neither Congress, nor the people of the territories,
 nor any other power, can prohibit it, at any time
 or in the formation of state constitutions—
 The third point is made in order that the territories may
 safely be given up with slavery, before the formation of
 state constitutions, and thereby to embarrass the formation

Abraham Lincoln's "house divided" speech
 Sold for record \$1.54 million at Sotheby's.

the middle of the market, where James Blanchard and his Jefferson Rarities loom large. As a promoter, Blanchard can boast of impressive credentials. In 1979 he started a commemorative and antique coin business called James U. Blanchard & Co. He sold it to Allegiance Capital Partners in 1988 for \$30 million. In 1985 he started building the Blanchard Group of Funds into a \$1.3 billion (assets) mutual fund company. He's still a shareholder of the company that manages the fund.

"With the coin company we took a cottage industry and made it the largest [retail] coin business in the U.S. through direct response marketing," says Blanchard. "Now we plan to do the same thing with autographs." Says New York's well-known manuscript dealer Kenneth Rendell, the man who saw through the bogus Hitler diaries published in 1983:

"Anyone with Blanchard's marketing force can change things."

Blanchard's timing certainly looks good. A year ago *Autograph Collector*, a monthly magazine published in Corona, Calif., had a circulation of 1,500. Now that it's carried in Barnes & Noble bookstores, Waldenbooks and B. Dalton, the publishers expect circulation to reach 10,000 this year.

Collectors who don't know much about autographs and manuscripts may well be burned as the market takes off. As dealers have swarmed into the field, forgeries have proliferated. So have "mistakes." A mistake is not a forgery, but rather, a document that is misidentified. Take a document only signed by Lincoln, for example, as opposed to one written entirely in his hand. The latter is far more valuable. "The hundreds of dealers coming into the field now simply cannot authenticate," says Mary Benjamin of Hunter, N.Y., the grande dame of the trade. "I received a

huge catalog just the other day and was glancing through it and saw four mistakes."

Autographs present pitfalls to the dealers, too. Take Gallery of History, Inc., a publicly traded company whose inventory of autographs comes to around 150,000. Despite escalating prices of autographs, the company managed to lose \$150,000 on sales of \$3.3 million in 1992. Reason? When President Todd Axelrod started the Las Vegas-based business in 1981, his idea was to set up a chain of autograph galleries in malls. The idea flopped.

"We found that 90% of our clients are men, and they don't go to malls," sighs Axelrod. After opening nine galleries, he has closed three. Axelrod now focuses on showroom sales.

Moral: "Everyone should take a five- to ten-year perspective on autographs, otherwise they could get scorched," warns Axelrod.

Cleaning urinals, moving office furniture and delivering mail are not the usual work of a chief financial officer. But for TVA's William Malec it serves a useful purpose.

Meeting the boss

By Toddi Gutner

GROWING UP IN Broadalbin, N.Y., William Malec used to listen to his Polish immigrant parents complain about their bosses. Malec's father worked at a tannery, his mother at a vinyl-record factory. Management, they said, never paid attention to their ideas; what could such as they have to contribute? Malec remembered that.

Today, as chief financial officer of the \$5 billion (revenues) Tennessee Valley Authority, Malec, 53, listens a lot to TVA employees. Once a month he spends a day doing the job of one of the 2,000 employees who work for him at TVA facilities in Muscle Shoals, Ala., Knoxville or Chattanooga. That can mean scrubbing toilets at midnight, sorting mail with the couriers at 5 a.m. or punching in data for the purchasing clerk.

Not the usual kind of work for an M.B.A. from Indiana University who held top financial jobs at big public utilities before joining TVA in 1989. Malec began using his dirty-hands approach two years ago as a morale builder to counter the effects of 18,500 companywide job cuts in the last four years.

The experience reminded him of his parents and their frustrations. "Management is imposed on the work force," Malec came to realize. By working with employees, management gives them a chance to be heard. Here was more than just a morale-building technique. It could be a way of making a business more efficient.

Malec heard complaints about having to fill out too many forms to rent a company car. He made it simple: Show your TVA badge and give your

Social Security number. Just buying a mop took a multipage form that was accepted only at certain local stores. Malec gave plant managers credit cards that could be used anywhere. Estimated savings: \$1.3 million a year in purchasing costs. "I've always hated rules," he says.

TVA's four field accountants often had to mail complicated report forms



William Malec, TVA's chief financial officer

A dirty-hands approach boosts morale and efficiency.

into headquarters, delaying the entry process. Working in the bookkeeping office one day, Malec overheard a call from an accountant who wanted to know if the numbers couldn't just be taken over the phone. Why not, said Malec. That saves a day's work for the bookkeepers.

Cleaning offices one night, Malec saw janitors wasted too much time plugging in and unplugging vacuum cleaners every few feet. He bought them battery-powered sweepers.

Then Malec got a firsthand lesson in employee relations. Delivering mail, he ran into a manager who made a habit of routinely buttering Malec

up. The manager didn't recognize him in his temporary role and snubbed him. "This is what we have to change," says Malec. He told the manager's supervisor, who then brought it up in the manager's review.

Last month Malec's assignment was to show up at 7:30 a.m., dressed in blue jeans, a sweatshirt and a TV baseball cap, to load office furniture into a truck for a 20-mile trip to division warehouse. Ten file cabinets and 22 chairs later, Malec was hot, sweaty, dirty—and smiling. "You gotta keep up with these guys or else they lose respect for you," he explained. On the 30-minute drive, Malec chatted with the second foreman Fred Buis, striking a rapport that came in handy later. For when the truck arrived, there was no one there to meet them. The manager showed up late and couldn't find the key. The

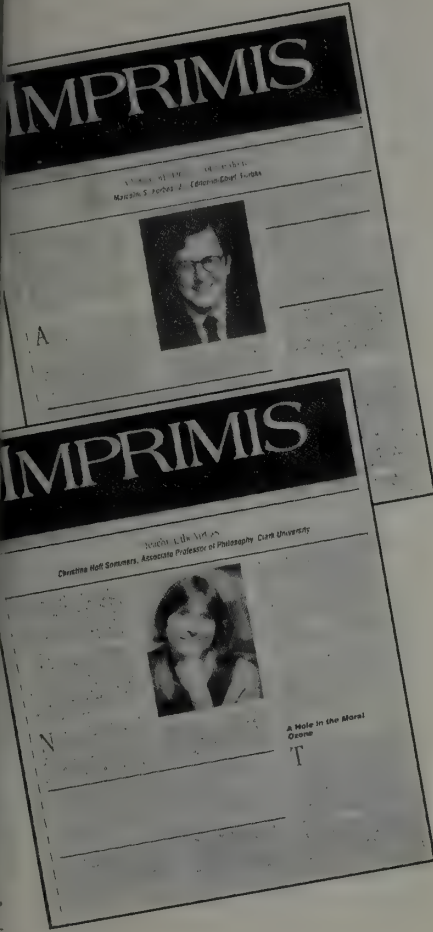
crew stood around for an hour. On the drive back Buis confided that kind of thing happened a lot. "When you get down into their jobs they will tell you things you don't normally hear," Malec said.

On his lunch break, nursing a blood blister from his morning's work, Malec called maintenance to get broken doors fixed in the loading dock that had slowed the job. He also asked Buis' supervisor to talk to his workers regularly about how to improve efficiency. Then it was back to the warehouse to assemble boxes for moving supplies

and, later, move furniture into a conference room. "Thanks for putting up with me today," Malec said at day's end as he shook hands all around. His effort seemed genuinely appreciated. "Come back anytime," said Buis.

When he wandered from campfire to campfire on the eve of the Battle of Agincourt, chatting up the soldiers, did King Henry V inspire them to fight better and braver the next day? There's no way to measure the effect, but everyone knows the result: A handful of English smashed a far superior French force. Maybe that's what more businesses need. "A little touch of Harry in the night."

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Along came Patterson

JAMES PATTERSON, chairman of advertising agency J. Walter Thompson North America, published his seventh novel in January. *Along Came a Spider* is a lowbrow thriller about a black psychologist/police detective and a slashing psychotic kidnapper. Most of the previous six novels have sold only moderately well, so this time Patterson decided to take an active role in marketing *Spider*.

A year before publication Patterson's agent sent the completed manuscript to colleagues in Hollywood. They recommended it to publishers in New York. "The next week we had bids from four publishers," says Patterson. "The book had gone from 'Who needs another manuscript?' to 'This is a hot manuscript.'"

In February Little, Brown agreed to pay \$1 million for *Spider* and a sequel. ("I wanted a commitment to me as an author and even as a brand," Patterson explains.) Later Patterson lobbied against the publisher's proposed jacket cover, a picture of a bloody sneaker. "I felt that I'd seen it before," he says. J. Walter Thompson's creative people came up with an alternative: a menacing spider hanging over a lonely house.

Finally, Patterson himself handled publicity. He designed the print ads and talked a reluctant Little, Brown into a two-week, five-market TV campaign, which he wrote. "Publishers



Daryl Ann Saunders

J. Walter Thompson adman—and bestselling author—James Patterson
"A book is like any other new product."

haven't had a very good experience with advertising," he says. "They tend to spread the money all over and do look-alike ads nobody notices. This book is like any other new product. You've got to let people know it's there and what it is. If you don't do that, don't blame the product."

Result of Patterson's hands-on marketing: Last month *Along Came a Spider* debuted at number 9 on the *New York Times* bestseller list.

New man on the spot

IN FEBRUARY T. Marshall Hahn Jr., the strong-willed chairman and chief executive of forest products giant Georgia-Pacific, traveled to New York to visit GP's big institutional shareholders. In tow was his hand-picked successor, A.D. (Pete) Correll. Correll, 51, will take over as chairman in May and as CEO in December when Hahn, 66, retires in December.

The institutions, which own more than 60% of the stock, required some handholding because Georgia-Pacific has shown losses in the past two years despite a healthy cash flow. "Pete's a papermaker," Hahn said enthusiastically as he took Correll around town. "He's going to do a better job than



Georgia-Pacific's chairman-elect, Pete Correll

Will the Great Northern Nekoosa deal pan out?

l." Correll was lured away from Head Corp. to run GP's paper business in 1988.

Correll has played a big role in making Georgia-Pacific into a major paper company. In 1990 Hahn, with Correll on board, won a huge takeover battle for Great Northern News, a paper company. The goal was to make GP less reliant on the building products cycle. The timing wasn't great, because paper prices fell soon after the purchase was completed. GP's operating profits from its paper business were only \$84 million last year, down from \$979 million in 1990. But the whole paper industry is depressed and the \$5 billion Hahn bid for Great Northern was half what it would have cost GP to build the equivalent plant.

Correll says the purchase will look smart when the paper cycle turns—as it inevitably will.

new breed of Japanese banker

KENSHIN OSHIMA is a worrier. He worries about stock market crashes, Kondratieff's 60-year waves, earthquakes and client bankruptcies. Because he worries, he has survived.

Oshima, 45, is the founder of Shohkoh Fund, a Japanese nonbank financing firm. Scores of Japanese nonbanks got into big trouble by borrowing money from large commercial banks and lending to real estate developers and stock market speculators. When those bubbles burst, losses at the nonbanks were devastating.

Oshima's Shohkoh Fund is different. A former Mitsui & Co. executive, Oshima founded Shohkoh Fund in 1978 and listed it over-the-counter in 1989. Rather than bankroll speculators, he lends mainly short-term funds to small merchants and manufacturers; his average maturity is 11 months, and his loans per client average just \$48,000. Shohkoh's total assets are estimated at \$670 million. Profits climbed about 25%, to \$16 million, last year. Most impressive, Shohkoh Fund's nonperforming loan ratio is below 0.2%.

A big factor in Oshima's survival: He likes to know the people he's lending money to. "We go to the

company and meet the president to see if he really knows his business," says Oshima. That hasn't been a very common practice among Japan's nonbanks in the past, but it will be in the future, for those that survive.

Jocks and stocks

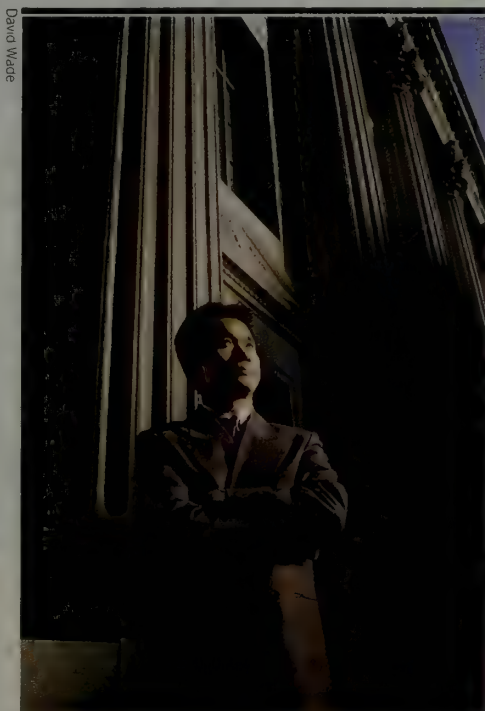
PATRICK HADEN, 40, is a former Los Angeles Rams quarterback, a Rhodes scholar and a lawyer. J. Christopher Lewis, 36, is a former professional tennis player, a Rhodes scholar finalist and a banker. Together they make up

two-thirds of the Los Angeles investment firm Riordan, Lewis & Haden. The other third, centimillionaire Richard Riordan—who's now running for mayor of Los Angeles—put up most of the firm's capital. Riordan retains veto power, but Haden and Lewis make most of the investment decisions.

Haden and Lewis specialize in deals too small for most Wall Street firms. They'll buy small family-owned businesses, obscure divisions quietly shopped by large corporations, and young companies in need of capital and new management. "We only want companies with a clear niche that allows them to compete on more than price, that have the potential to grow, and a guy at the top with a proven track record," says Lewis.

This can be rewarding work. Case in point: Tetra Tech Inc., an environmental engineering outfit in Pasadena, Calif. In 1987 Honeywell decided to sell Tetra Tech. Its managers were willing to invest \$2.3 million for two-thirds of the company. Lewis and Haden put up \$1.15 million for the rest. Since then, sales have grown from about \$24 million to \$66 million. The owners took Tetra Tech public in December 1991 at \$8; the stock recently traded at 17½.

Riordan, Lewis & Haden has made around \$16 million on Tetra Tech. That beats pro sports, and it's easier on the body. —JOHN H. TAYLOR ■

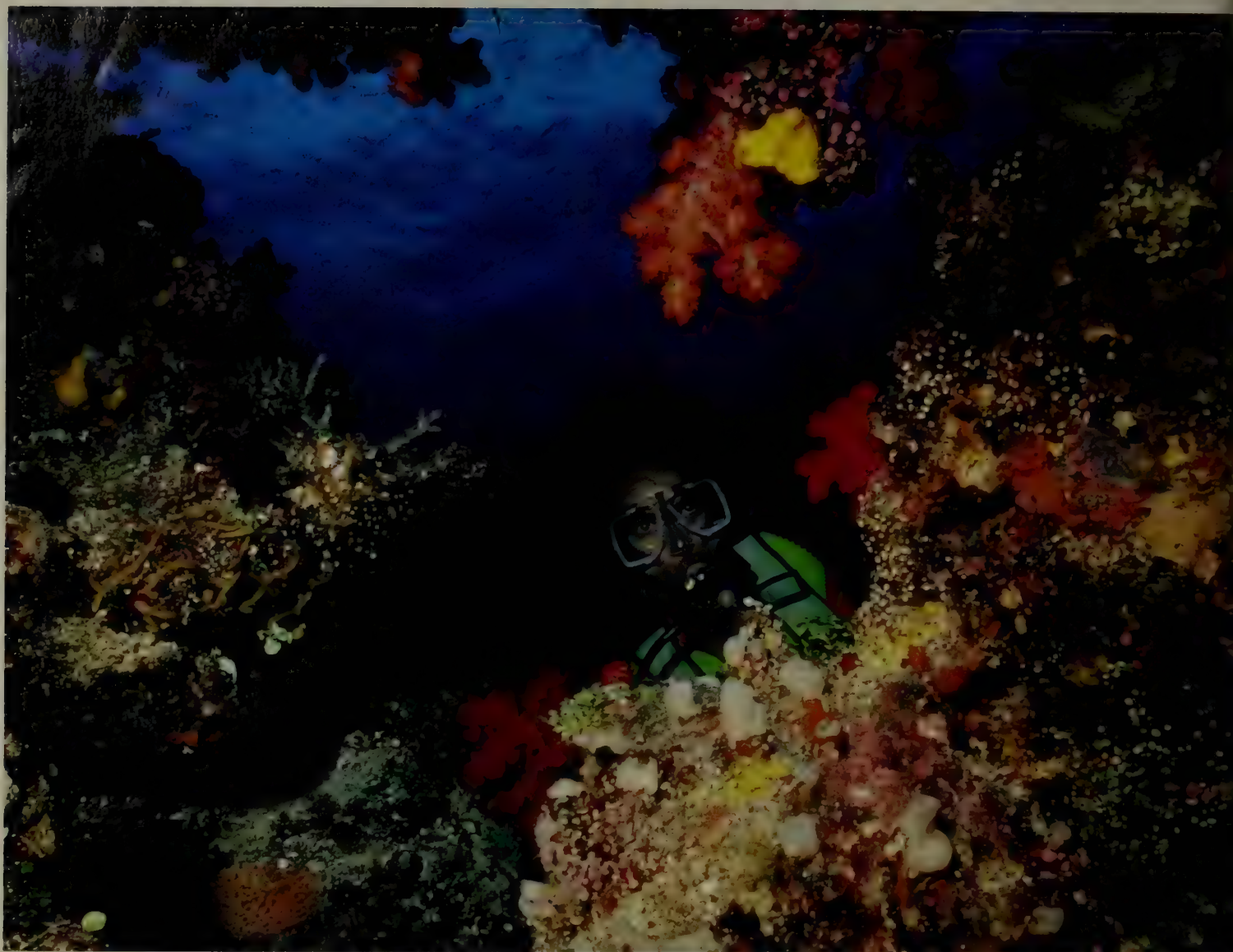


ABOVE: Kenshin Oshima, Shohkoh Fund chief executive. **He makes sure his borrowers know their business.**

Philip Saltonstall



Investment bankers Patrick Haden and J. Christopher Lewis. **Better than chasing balls for a living.**



IF YOU CAN'T RELAX HERE, YOU CAN'T RELAX

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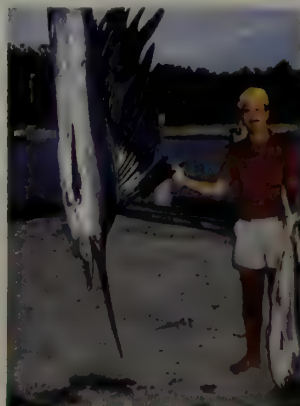


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FORBES
MAGAZINE
FIJI ISLAND

During the last two weeks virtually every market index hit new highs, but the stocks—shares that seem cheap relative to earnings and book value—were the best gains. Since the start of the year, the Standard & Poor's/Barra value index outperformed its growth index by a 3-to-1 margin. Value stocks are just playing catch-up with growth stocks," says Louis Medlo, editor and publisher of the *City Analyst*, in Green Bay, Wis. To some players, value stocks now seem to be getting a little ahead of themselves. But Raymond C. Baker, director of research at Encino, Calif.-based Yaeger Securities, sees a good reason for the rally and thinks it will continue. "In the long run, real interest rate cuts will make the dollar weaker, which will enhance U.S. exports," he says. One exporter with good growth prospects, Baker says, is software publisher Borland International.

Special focus

For the second year in a row, Wall Street winners became winners and winners became losers. Barra, Inc. looked at the 1992 performance of the best- and worst-performing S&P 500 stocks from 1991. In 1992 the ten biggest losers from 1991 posted an average return of 17%. In contrast, the ten winners gained only 3% on average.

Turnaround stocks

1991 leaders	1992 return	1991 losers	1992 return
Home Depot	51%	Variety	92%
Cooper Tire & Rub	34	Compaq Computer	85
Goodyear	29	Rowan Cos	37
Hasbro	22	Columbia Gas Sys	11
Adv Micro Devices	4	Placer Dome	8
Reebok Intl Ltd	4	Halliburton	4
Merrill Lynch	3	Santa Fe Ener Res	-2
Data General	-30	Great A&P Tea	-13
Gap	-38	Commun Psych	-25
Biomat	-47	Arkla	-28

The overall market



Closeup on the market

Index or investment	2-week change	% change from 1 year ago	% change from 5-year high
Barra All-US index	3.0%	8.2%	0.0%
S&P/Barra Growth index ¹	1.6	7.5	-1.3
S&P/Barra Value index ²	5.1	16.0	0.0
Dow Jones industrials	5.0	4.9	0.0
S&P 500	3.2	8.6	0.0
NYSE	3.4	8.3	0.0
Nasdaq	1.2	11.2	0.0
Amex	2.4	-0.2	-0.8
EAFE ³	0.9	-12.2	-29.3
CRB futures index ^{4,5}	-0.6	-6.3	-26.5
Gold ⁵	-0.1	-7.5	-34.5
Yen ⁵ (per \$US)	-0.1	-1.2	-24.0
Oil ⁵	8.0	4.1	-50.7

The best and worst performing stocks⁶

Best	Price	2-week change	1993 EPS ⁷	Worst	Price	2-week change	1993 EPS ⁷
Dahlberg	22 3/4	58%	\$0.92	Topps	7 1/4	-43%	\$1.36
Tandycrafts	26	53	NA	Leslie Fay Cos	7	-42	1.65
Viratek	11 1/4	53	NA	ImmunoGen	7 1/4	-34	-1.65
Carter Hawley Hale	11 3/8	44	NA	Micros Systems	13	-32	0.75
Software Publishing	12 1/2	39	1.02	Exide Electronics Group	17 1/4	-32	1.24

The best and worst performing industry factors^{8,9}

Best	2-week change	Since 12/31/92	Worst	2-week change	Since 12/31/92
Oilfield services	13.2%	5.3%	Pharmaceuticals	-4.6%	-8.7%
Aluminum	12.0	7.2	Coal & uranium	-4.4	0.8
Water transport	10.3	13.4	Leisure, luxury	-4.2	-1.6
Forest products	10.1	16.4	Trucking	-3.1	4.2
Railroads	9.8	11.8	Telecommunications	-1.4	3.7

Data for period ending 2/4/93. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. REITs and closed-end funds are excluded. ¹ Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above-average earnings growth. ² Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³ A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴ Index of 21 commodity futures. ⁵ Knight-Ridder Financial Information. ⁶ During the last two weeks. ⁷ Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. ⁸ Shows return to the industry factor after controlling for other influences, including company size, value growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

Who made the most money?

Investment	Value of \$10,000 invested 12/31/82 ¹	Change last quarter
S&P 500	\$44,723	5.1%
Wilshire index	41,844	7.3
Institutional equity account ²	37,638	7.4
Institutional balanced account ²	33,364	3.4
Lehman Govt & Corp	29,621	0.1
Institutional fixed income account ²	28,682	0.2
91-day T bills	20,039	0.7

Segment performance and cash flow

Segment	Most recent quarter	
	median total return	shift in institutional holdings
Equity	7.6%	-0.4%
Fixed income	0.1	0.3
Cash equivalents	0.8	-1.3
Convertibles	4.4	0.0
Other ³	-1.0	0.0
Total	5.3	0.6

When institutional investors panic, they can send a stock reeling. Food Lion, a North Carolina-based grocery chain with over 1,000 stores, was hit with some bad publicity last year about its labor practices and its fresh meats. Wham! The combined market value of Food Lion's two classes of stock dropped from \$8.8 billion at the end of 1991 to \$3.9 billion at the end of 1992. Institutions tracked by the Trust Universe Comparison Service significantly reduced their holdings in Food Lion.

Stocks with relatively large institutional position changes are shown on the tables at right. Noticeably missing from the list of stocks heavily sold by pension funds is IBM. Although IBM started last quarter at 80 $\frac{3}{4}$ and ended it at 50 $\frac{3}{8}$, the institutions mostly just traded the stock among themselves. According to Vickers Stock Research Corp., based in Huntington, N.Y., pension funds, mutual funds and other professional managers held 45% of the outstanding shares of IBM at year-end, versus 49% of IBM's shares at the end of 1991.

Money managers ended the year in a bullish mood. After their fourth-quarter stock-buying binge, pension fund managers finished 1991 with only 4% of their assets in cash and cash equivalents in the median equity account. This raises the question of whether pension fund managers will be able to fuel a big rally in stocks in 1993. Contrast December 1990, when the median stock portfolio was 7% in cash. That cash fed the bull market of 1991.

What the institutions bought and sold

Big stocks⁴

Stock bought	Quarter total return	P/E	Stock sold	Quarter total return	P/E
Arkla	-20.4%	NM	Bandag	-5.6%	19
Asarco	6.1	24	First Financial Mgmt	23.9	20
Compaq Computer	46.1	22	Fleetwood Enterprises	47.1	23
Conseco	49.5	9	Flightsafety International	1.7	17
Crestar Financial	26.1	22	Food Lion	-24.8	18
Federated Dept Stores	41.1	NM	General Cinema	33.4	25
General Motors H	22.2	14	BF Goodrich	16.7	NM
Healthtrust-The Hospital Co	45.9	16	LDDS Communications	34.0	28
Perrigo	40.6	51	McCaw Cellular Comm	41.1	NM
Star Banc	15.1	14	Pacific Enterprises	0.7	NM
SynOptics Communications	90.9	57	Travelers	23.3	NM
Union Texas Petroleum	2.3	21	Turner Broadcasting Sys	12.0	NM

Secondary stocks⁵

Stock bought	Quarter total return	P/E	Stock sold	Quarter total return	P/E
Biomatrix	2.6%	NM	Bolt Beranek & Newman	18.8%	25
Conn Water Services	-2.6	14	Centigram Communications	75.9	26
Ground Round Restaurant	19.6	18	Custom Chrome	48.1	13
Health Equity Properties	-9.0	18	Diversicare	18.9	14
MAF Bancorp	25.4	8	Graham-Field Health	-2.1	24
Peoples Telephone	25.0	27	Interactive Network	267.9	NM
Rio Hotel & Casino	22.7	18	Johnson Products	92.8	11
Roosevelt Financial	57.2	11	MicroProse	-31.3	17
Software Etc Stores	50.0	40	Micrografx	-9.8	23
Solo Serve	19.2	15	Plexus Corp	-28.6	19
Sunbelt Nursery Group	11.6	NM	Toastmaster	1.4	9
United Am Healthcare	71.4	11	Wordstar International	29.4	NM

¹Total return. ²Includes cash. ³Real estate, foreign investments, venture capital, guaranteed investment contracts. ⁴Stocks with \$1 billion or more in market capitalization at start of quarter. ⁵Stocks with market capitalization between \$40 million and \$200 million at start of quarter. NM: Not meaningful.

Note: What the institutions bought and sold measures the change in the institutional holdings as a percentage of a stock's total capitalization, net of price changes. Data for quarter ending 12/31/92. Prepared by the Trust Universe Comparison Service (TUCS), a service of Wilshire Associates, Santa Monica, Calif.



**After tuberculosis,
malnutrition, and polio, fourth grade
is a day at the beach.**

When you're 11 years old and you've lived through as much as Palani, even the chance to attend school is something. But today, Palani not only goes to school, she plays the cello and she's active in athletics. Thanks to Easter Seals, Palani has gotten academic tutoring, she's gone to camp, and she's received a wheelchair. In fact, she's even gone on to win medals in the Junior National Wheelchair Games. All of which have given her the chance every kid deserves: the chance to be a kid. Palani is just one of millions of children and adults with disabilities that Easter Seal quality rehabilitation programs have helped. Give to Easter Seals. **GIVE THE POWER TO BECOME.**



Banks are trying to expand their bridgehead into mutual funds. So why are they soaking investors with hefty loads?

Blowing it

By Marcia Berres

WHAT BETTER customer base for a mutual funds operation than the savers who have about \$900 billion tucked away in certificates of deposit? What better delivery mechanism than the banks themselves? No surprise that banks are trying desperately to expand their business share. What a shame bank customers aren't getting a good deal out of this situation.

Bank-managed funds already account for 10% of the \$1.5 trillion in mutual fund assets, up from 5% in 1987. The retail-oriented Banc One, a large midwestern bank holding company based in Columbus, Ohio, now offers ten in-house managed Helmsman funds, up from four funds three years ago. Wells Fargo Bank has doubled the number of its Stagecoach funds over the same period. This month NationsBank, the U.S.' third-largest banking company, teams up with stockbroker Dean Witter Reynolds to start a joint venture to sell funds in NationsBank branches.

But are bank funds good buys? In a word, no. The problem is that they are virtually all load funds. You pay, typically, 4½% of your money to get in. In a world in which a plenitude of no-load funds are available, a bank sales commission is money down the drain.

The banks used to offer a better deal. Banc One's Helmsman funds, as well as Chase Manhattan's excellent



Vista funds and Citibank's Landmark funds, started out as no-load products. All three banks have slapped the loads on most of their funds in the past two years. Most bank funds also have costly 12b-1 distribution fees built into their annual expense tabs (*see table*). Two lonely holdouts in the trend to loaded bank funds are Fleet/Norstar's Galaxy fund family and Firststar's Portico family.

It seems that the banks are missing an opportunity to play to their natural competitive advantage over broker-sold funds—namely, low overheads. Banks don't have to hire an army of cold-callers to find customers with money, since they already have the customers. All they would have to do, it seems, is leave some prospectuses in the lobby and let the fund buyers come to them. A bank, moreover, ought not to have to advertise as heavily as an independent fund company to establish a reputation for solidity and trustworthiness. Presum-

ably, it has that already.

So why are banks ladling on the loads and the 12b-1 fees? Because they think they can get away with it. Studies show 80% of bank customers are novices in investing. As longtime CD buyers but brand-new fund buyers, they don't think to ask about costs before picking a fund.

The banks say they need to pump a lot of money into fund distribution precisely because their customers are uneducated. Thus, Barnett Banks and First Union have commission-paid brokers in their branches to market funds and other investment products. "Our customers are dying for assistance they can't get over an 800 number," claims Charles King, head of the NationsBank securities subsidiary. Says Kenneth Kehrer, a consultant in Princeton, N.J. who helps banks sell up funds, "If the funds don't sell themselves, you have to sell them with a load."

This is shortsighted. Even if hand-holding causes banks to lose money bringing investors into the fold, the banks would gain in the long run from the stream of management fees.

The banks do not offer any advantages to the investor that he can't get for free from no-load funds. Do you find it appealing to be able to transfer money directly between your checking account and a fund? You don't have to pay a load to get that convenience. The big no-load fund families offer direct linkups to bank accounts, including wire transfers for emergency withdrawals and automatic monthly investment plans.

What about performance? Do the banks have something to offer here? Chase's Vista Growth & Income has been such a standout—up an average 32% a year over the past five years—that Chase is pitching the fund to the general public. Impressive as that performance is, it's probably not worth the 4½% load to anyone but a very long term investor, someone who is fairly sure to stay put for ten years. For a short-term investor—certainly anyone sticking around for five years or less—even a modest sales load is a serious drag on results.

Until the banks offer better deals—or Fidelity takes over Banc One—you're better off keeping your fund and checking account separate.

One-stop shopping

Bank	Fund	Net assets (\$mil)	Maximum sales charge	Annual expenses per \$100
Banc One	Helmsman Disciplined Equity	\$123	5.5%	\$0.69
BankAmerica	Pacific Horizon US Govt Sec	113	4.5	0.37
Chase Manhattan	Vista Growth & Income	136	4.5	1.39
Citibank	Landmark NY Tax-Free Income	11	3.0	0.80
NationsBank	Nations Value Investor	271	4.5	0.53
Wells Fargo	Stagecoach Ginnie Mae	132	4.5	0.72

Net assets as of 9/30/92. Expense ratio is in italics if it includes a 12b-1 fee. Source: Morningstar.

Buying a mutual fund at your local bank offers convenience—but often at a steep price, as this sampling shows. Few banks have resisted the temptation to slap on sales loads.

Japanese small-company stocks have been battered along with the rest of the Japanese market. Several funds provide an entrée for those who want to fish.

Bargains in Tokyo?

Richard Phalon

THE SEVERELY MAULED Japanese small-company stocks, down about 30% from only last year, beginning to look cheap?

Some U.S. fund managers clearly think so. The Scudder Global Small Company Fund, for example, over the last ten months has jacked up its holdings of Japanese issues from 8% to 14% of assets—an allocation second only to the U.S. segment of its portfolio.

The Japan Fund, also run by Scudder, has already shown good gains on the cash it pumped back into the Tokyo market during the big break of last summer. Among the buys at that time, says portfolio manager Elizabeth Allan, were such small-cap items as Dunkin' Donuts franchiser Yoshiyuki D&C. Scudder Global Small Company has moved into Nichiei Co., a lender of short-term money to small companies.

Don't expect screaming bargains. Despite the crash in Tokyo, small-

growth stocks there are still trading at around 40 times earnings. "I've been telling people Japanese small caps will do well relative to other markets," says Allan, "but I think you have to be both patient and cautious." In an economy showing no forward motion, wary analysts are predicting further earnings declines this year.

The most concentrated dose of Japanese small stocks comes in the Japan OTC Equity Fund, a Big Board-listed closed-end. Its big drawback is the hefty 19% premium to which its share price has climbed above net asset value.

Here again, patience is probably called for: Closed-end premiums have a way of sinking to discounts eventually, and in time the Japan OTC fund could get cheaper. Indeed, through 1991, even as this fund was doing an excellent job of playing a rebound in the Japanese small-company market and delivering a total return of 26%, it often traded at a discount.

In the last year Japan OTC has fallen almost 30% in net asset value, a correction that would send just about any domestic closed-end to a discount. But evidently some American investors are looking to get first dibs on a rebound in Japanese small caps, and are ponying up \$8.25 a share for a basket of comparatively illiquid companies like Paltac Corp., a cosmetics wholesaler. "Some investors seem to be betting that the Japanese counter market has finally bottomed out," says Takeo Nakamura, president of Japan OTC.

As measured by the averages, the Tokyo market has recovered more than 20% from last summer's lows. But fund manager Nakamura urges caution, noting that Japan's recovery from this recession will take longer—and be smaller in magnitude—than any since World War II.

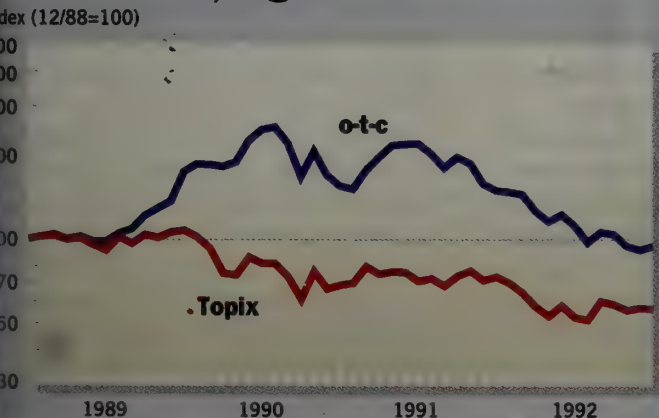
Though he warns against expecting quick results, Nakamura's investment strategy has been quite aggressive. Japan OTC has cut back cash to a slim 3.6% of assets and sold off bigger companies to broaden its beachhead in unlisted stocks from 76% to 85% of the portfolio.

Japan OTC has managed to hold up better than the counter market as a whole. Short of going entirely into cash, however, there was no way to escape pain. At last report the \$60 million market value of the portfolio was some \$24 million below cost. Thus, the fund can book a lot of capital gains before being forced to declare a taxable gains distribution.

In Japan, as in the U.S., small companies tend to be more dynamic than big ones. Japan OTC's holdings include such stocks as videogame software producer Capcom Co. (FORBES, Jan. 18) and Mos Food Services, a franchiser that has been giving Japan's McDonald's fits. As usual, many of these are stocks with a story, like the outfit that sells vending machines to "love hotels" (Nippon Data Kiki).

Given that the Japan OTC fund sells at a probably unsustainable premium, U.S. investors wanting a taste of Japanese stocks might do better to start with either the Japan Fund or Scudder's Global Small Company, both no-loads, or the Scudder New Asia Fund, a closed-end that trades at a slight premium to asset value.

Small stocks, big bounces



When Japan's small stocks are good they are very good, and when they are bad they are horrid.

Topix: Tokyo Stock Price Index of stocks on first section of Tokyo Stock Exchange. OTC: Jasdaq Index of small-company stocks. Source: Nomura Capital Management.

Can a genius boost your return on Treasury bonds by making them incredibly complicated? No, but he can rake in fat fees for trying.

BlackRock's black box

By Katarzyna Wandycz

BLACKROCK Financial Management, a firm in New York with \$15 billion under management, has one of the hottest products around: target term trusts.

Target term trusts are closed-end bond funds traded on the New York Stock Exchange. "Target term" stands for their attempt to get you a high yield and to return your principal on a given date, which can vary from 7 to 15 years away. Proposing to buy only government-guaranteed paper or close to it in quality, the trusts are thus meant to be virtually risk-free for those holding them for the term.

Typical of these offerings is the BlackRock Target Term Trust, which sold 96 million shares in November 1988 at \$10 each and aims to liquidate in 2000. It recently had a "yield to maturity" of 7.6%, versus just 6.2% available on Treasuries due in 2001.

Sounds great: additional yield at no additional risk.

For staging this magic show, BlackRock's portfolio managers get handsome fees: \$23 million a year on \$4.2

billion in target bond funds. BlackRock (formerly Blackstone) is a fixed-income money manager started by the folks who brought you collateralized

mortgage obligations.

What are these alchemists doing? Transmuting lead into gold? Not quite. BlackRock boosts yield with two devices. One is to leverage the portfolio—in effect, to buy bonds on margin. Each trust borrows up to a third of its capital at short-term rates as low as 3.2%. It then invests in longer-term stuff that can yield over 7%. The spread enriches the yield. The same practice almost destroyed the thrift industry: borrowing short, investing long. If interest rates jump, the cost of borrowing to buy the bonds can rise well above the income generated. And bond prices fall, murdering the fellow buying them on margin.

Another device is to own mortgage securities rather than Treasuries. Nearly a third of the Target Term Trust's assets are mortgage pass-throughs from such agencies as the

Federal National Mortgage Association and the Federal Home Loan Mortgage Corp. This mortgage paper yields from 0.5 to 1 percentage point more than Treasuries, but for good reason. First, its interest is not exempt from state income tax, the way Treasury interest is. For a taxable investor, that can erase most of the extra yield. Second, the mortgage paper has built-in options that help the homeowner but hurt the investor: The homeowner may prepay his mortgage if interest rates go down.

BlackRock also buys collateralized mortgage obligation residuals. These gizmos are the slices of a mortgage pool in which the unfavorable options may be concentrated. They are harmless and high yielding if interest rates go your way but poison if they don't.

What does all this rocket science accomplish? Not much. In a good setting for BlackRock's style—interest rates steady to lower, yield curve very steep—the trusts are just treading water (*see table*). Only one has matched the benchmark Treasury, and most have done much worse.

The table, figured on net asset value rather than NYSE prices, leaves off the important cost of getting into and out of the trusts. Buyers at the initial offerings paid 5% to 6% over net asset value to get in. If they want out before the liquidation date, they will have to pay a broker as much as 2% to sell.

Recent trading prices don't make the trusts any bargain for new buyers. The cheapest, BlackRock 1998 Term Trust, is at just a 2.5% discount to net asset value; several are at a premium.

Our advice to people about to buy BlackRock trust: don't. No-load government bond funds charge zero transaction costs in or out. And plenty of bond funds peel less off the top for the managers. Vanguard funds run an annual expense ratio about a third of BlackRock's 0.9%.

If you plan to stay put until maturity, buy Treasuries directly from the government and pay no fees at all. If investing for an IRA or other account exempt from state tax, buy a Ginnie Mae fund to capture the extra yield of mortgage paper. For high rollers who think interest rates will fall, there are better ways to buy on margin than through BlackRock. A Treasury bond future is the way to do it.

Reverse engineering

Fund	Date started	Net assets (\$mil)	—Total return¹— fund Treasury benchmark	Premium/ discount	
2001 Term Trust	8/92	\$1,360	10.0%	11.6%	0.8%
Target Term Trust	11/88	1,007	13.0	13.0	−2.4
1998 Term Trust	4/91	610	13.7	13.9	−2.5
Strategic Term Trust	12/90	569	12.4	14.3	1.3
Invest Quality Term Tr	4/92	361	14.2	20.6	1.2
1999 Term Trust	4/90	182	17.0	32.7	4.4

¹ Annualized, since inception of fund. Returns calculated on net asset value; the returns are thus not debited for the initial underwriting commission (5% to 6%).

Source: BlackRock Financial Management.

After BlackRock's target term trusts are leveraged, then larded with mortgage bonds, most of them still lag the simple returns of Treasuries.

amidst the crosscurrents of the 1993 market, some clear trends are emerging.

Back to value

BY DAVID DREMAN



David Dreman is chairman of Dreman Value Management, L.P., Investment Counsel, New York, and author of *The New Contrarian Investment Strategy*.

IN THE MARKET WARS this year the major indexes advance and fall back with little overall change, but clear signs are emerging of the development of several fresh trends.

The first is a strong movement back to value, just at the time many experts had written off value investing as a viable strategy. Value stocks are those considered cheap compared with the market on the basis of P/E ratios, price to book, yields and similar characteristics. Last year, for the first time since 1988, value outperformed growth. Behind this newfound strength has been the leadership of some of the cyclical groups, notably autos, railroads and papers, as well as the continuing strong performance of banks and financial service companies.

Is the value play finished? Not by a long shot. Value stocks, even after last year's gains, are still at some of the cheapest levels vis-à-vis growth issues in years. A year ago the value sector was trading at levels below those of the 1987 crash. While the S&P 500, adjusted for dividends, doubled from 1988 to 1991, the entire gain was in the growth and other noncyclical sectors of the index; as a group, value stocks went nowhere.

With the improving economy, earnings should snap back smartly for

cyclicals, retailers and other economically sensitive groups. In contrast, many growth stocks are facing a deceleration in their rate of earnings increase. The bottom line is that we should see a few years at least of superior value performance.

We face a situation very similar to that of the late 1970s and early 1980s, when severely depressed value stocks provided double-digit annual returns, even though the Dow Jones industrial average traded in a narrow range between 800 and 1000.

For those tempted to play initial public offerings and other hot small-capitalization issues, history is flashing a red light. *FORBES'* Jan. 18 cover story provided details of how dangerous this market really is. We are again watching all the symptoms of a zany go-go market in its final stages. This crowd will buy anything: from fast-food companies at over 100 times earnings to pawnshop chains at 70-plus multiples, to two- or three-people startups without any revenues, capitalized in the mid-eight figures.

It's getting crazy. Last year's IPOs were about three times the dollar value of 1983's—the peak of the previous go-go market. When the bubble broke in mid-1983, prices dropped 70%, 80% or even 90%, in less than two years, and many issues disappeared entirely. History will repeat. These IPO concept spinners are also masters of the short squeeze. Too bad there isn't a good IPO futures index from the Merc or Amex that can be shorted pronto.

So, with small caps and big caps alike, stick with value stocks. Here are some medium and small stocks I would look at now.

Alberto Culver "A" (23), a manufacturer and marketer of health and cosmetics products, has had a 17% annual growth rate over the past decade. Earnings should increase over

15% again this fiscal year (ending Sept. 30). The stock trades at a P/E of 15 on this estimate, yielding 1.1%.

American Business Products (28) manufactures a wide range of business supplies. Operating earnings have increased every year since 1987, despite the recession, and should be up 15% in 1993. Trades at a P/E of 14 on 1993 estimates and yields 2.5%.

Michigan National (60) is a bank holding company with stakes in Michigan, California and Texas. With the gradual reduction of problematic real estate, earnings should increase approximately 20% this year. MNCO trades at a P/E of 15 and yields 3.3%.

Ogden Corp. (24) builds waste disposal plants and provides support services to a number of industries. Earnings should increase 12% this year with gains widening as the economy recovers. Trades at a P/E of 14 on 1993 estimates and yields 5.2%.

Reynolds & Reynolds (29) is the leader in computer systems for automotive dealers as well as a manufacturer of standard and custom business forms. Earnings, bolstered by a pickup in auto sales, should reach a record \$3.80 per share this fiscal year (ending Sept. 30), almost 20% above the 1992 level. REY trades at a P/E of 16 and yields 1.8%.

Textron (44) is a diversified company with stakes in defense, consumer products and financial services. Earnings and cash flow growth have been well above average over the past five years with income likely to show a 15% to 20% gain in 1993. The stock trades at a P/E of 12 and yields 2.5%.

Washington Mutual Savings Bank (35) is the largest thrift in the state of Washington. After major writeoffs in 1990, WAMU has a low level of nonperforming assets and the likelihood of strong earnings growth ahead. The stock trades at a P/E of 10 and yields 1.7%. ■

Don't read too much bullishness into the stock market's strong early February performance.

Tracking the Dow Theory

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (Dearborn Financial Publishing).

A FRESH DOW THEORY buy signal apparently was triggered in early February when the Dow industrials finally closed at a new alltime high. The Dow transports, as well as most other major averages, had already done so several weeks prior. The instant reaction—at least among many of the investment advisory letter editors whose hot-line messages we check daily—was to become more bullish.

The Dow Theory, the oldest of technical stock market indicators, still commands a wide following and is used by some of the top-performing investment letters. Several of them used it with brilliant success after the 1987 crash, when they insisted that the prescribed three-step test for a bear market had not been satisfied—and, thus, that the bull market remained alive. Those letters covered themselves with glory when, amidst general panic, they remained bullish.

Back to 1993. Are February's joint new highs in the DJI and DJT merely a reaffirmation of a continuing uptrend (which wouldn't be particularly bullish), or the reversal of a previous Dow Theory sell signal (which would be)?

It looks to me as if it is the former. In other words, the recent action isn't

especially bullish. Why? Because I am not persuaded that the Dow Theory gave a sell signal in the first place. No sell signal, no reversal. Thus, the market's strong performance in early February looks like a mere continuation of an existing trend.

According to the Dow Theory, the market must satisfy a three-step test before a bear market can be signaled. First, stocks must undergo a significant correction, both in terms of time and price. The levels to which the DJI and DJT decline are carefully noted.

In the second step, in their subsequent attempts to rally, either one or both of these averages must fail to surpass their old highs.

In the third step, both averages must then break below the lows set at the bottom of their first correction. (A bear market's end is determined in reverse fashion.)

Was the Dow Theory on a sell signal prior to the DJI's early February new high? Geraldine Weiss, writer of the top-performing *Investment Quality Trends*, believed that it was. She contended that stage 1 of this three-part test was satisfied last spring at the completion of the market's January-April correction. Thus, after failing in the spring and early summer to surpass their old highs (step 2), a bear market was triggered in October at the point when both averages traded below their April lows (step 3). As Weiss declared at the time, "The bull market has ended and the primary trend of stock prices is down."

But others disagreed. Among the skeptics was another close follower of the theory, the long-established *Dow Theory Forecasts*. This service believed that step 1 of the three-step test wasn't completed until August, not April—a crucial difference. By interpreting step 1 in this way, it meant

that step 3 of a Dow Theory sell signal never was satisfied: While the DJI in early October did penetrate its August lows, the DJT did not. Since a reversal of trend had thus been confirmed, *Dow Theory Forecasts* insisted the bull market remained intact.

Richard Russell, who writes *Dow Theory Letters*, originally had agreed with Weiss that a Dow Theory sell signal was triggered in early October. However, in late December he conceded that he was wrong: "If I had done it again, I would have insisted that both averages break to fresh new lows before calling a bear market."

I agree with Russell. To explain why, I go back to no one other than Charles Dow and other early Dow theorists, and what they termed the "cult of buying on every high." As one early student of the Dow Theory put it, "Nothing about the Dow Theory has been more persistently and stupidly misrepresented than the significance of successive new highs and lows. . . . To regard every new high after a prolonged advance in the stock market as a 'buy' signal is as irrational as to regard every new high of the waves on the beach as evidence that the tide is only starting to come in."

Evidence abounds that the tide in this market is already mostly in. This is one of the reasons Weiss was eager to declare that the Dow Theory had turned bearish. The DJI's dividend yield has dropped to an abnormal low 2.7%, suggesting serious overvaluation. Dow himself insisted that the action of the two Dow averages be interpreted in the context provided by stocks' fundamental value.

So, Dow Theory bulls, check your enthusiasm. The DJI's new high reaffirms that the bull market is still alive. But it is not the occasion for throwing caution to the winds.

You can get a little extra yield with muni bonds from weaker states. Is it worth the risk? Often, no. Here's a warning guide for investors tempted to reach for yield.

Statehouse watch

BY BEN WEBERMAN



Webberman is a columnist for FORBES magazine.

THE RECOVERY is under way. Does that mean you can stop worrying about defaults in your municipal bond portfolio? Not at all. Some states and municipalities will have weakened treasuries for years to come. Don't buy blindly. To be sure, default risk is a relative thing. Even the weakest state is not in the same league with a really junky corporate bond. But defaults could occur. Remember New York City and Cleveland in the 1970s?

Imagine this dilemma, five years from now: New York City's mayor is going to either pay the city's powerful municipal unions their raises or pay the bondholders on time. It could be a close call.

You know things are bad when Mayor David Dinkins has seriously proposed using the city's receivables, such as delinquent property taxes, as collateral with a local bank for a temporary loan to tide it over a budget shortfall.

New York State is in better shape than the city, but investors should remain cautious here, too. Note that the Fidelity Spartan New York High Yield fund recently was yielding 5.5%, while the Spartan Municipal Income fund was yielding 6.1%. People who live in New York are willing

to take a lower yield in order to get the double-tax-free New York portfolio. I think they are making a mistake. The yield disadvantage on the New York fund just about wipes out its tax benefit. On top of that, buyers of that "high yield" fund have to worry about having all their eggs in one shaky basket.

Things don't seem a whole lot better across the border in Connecticut, which has been on Kemper Securities' ten weakest states list since the inception of the list in June 1991. Richard Ciccarone, senior vice president in charge of municipal bond research at Kemper, cites the state's weak tax base. The taxpayers have money—the state's personal income is 135% of the U.S. level—but they aren't happy about the new income tax. Also, Connecticut's debt-to-personal-income ratio has more than doubled since 1988, to 5.8%. Then there are the defense cuts that are hurting big employers like United Technologies. The state has lost 200,000 jobs in three years.

How about California? Trouble there, too. Ciccarone and Kendrick Anderson, head of municipal bond analysis at Duff & Phelps, believe the Golden State's problems are not just cyclical but structural. They point to continued damaging consequences of Proposition 13, which limited local property taxes over a dozen years ago. By keeping existing property owners to mid-1970s tax levels and taxing newcomers at current tax values, the tax law creates disincentives for new business and relocations. The state, which has a deteriorating revenue base from the loss of aerospace jobs, is squeezing its local municipalities for taxes, while cutting back on state aid as much as \$1.8 billion in the 1992 fiscal year. California's problems

should last through the decade.

So, are bond buyers compensated for these hazards? Scarcely. Like New York, California gets avid local buyers for its bonds, since state income tax rates are high. Those buyers keep yields low. As a result, 20-year general obligation bonds from California are yielding only 5.9%, only a hair better than comparable GOs from Minnesota, a financially strong state. Unless you live in California, avoid its bonds.

Hawaii is also on Ciccarone's down list. He believes the retrenchment in tourism, down 4.5% for the first nine months of 1992, will continue, if not worsen, this year. Housing sales are down by about 10%, mortgage delinquencies are up about 8%, and foreclosures increased 73% in the 12-month period ended last Sept. 30.

So what's good? Utah is at the top of the list for both Anderson and Ciccarone, who cite the state's educated work force and modest wage costs. Utah went generally unscathed by the recession because of its diversified economic base and an above-average 18% rate of population growth over the last decade, well beyond the 9.9% national average. Utah has a conservative debt-to-personal-income ratio of less than 2% and a fiscal policy where revenues meet expenditure needs.

Then there's Minnesota, which came into the recession with the largest rainy-day fund of any state in the country—about \$500 million. There's probably about \$200 million of that left. Ciccarone points to the state's heavy concentration of industry less sensitive to economic cycles like food products, publishing and paper products. These account for 35% of all manufacturing jobs in the state, compared with 17% nationwide. Minnesota's debt-to-personal-income ratio of 2% is below the U.S. median of 2.2%.

Two surprises: Kemper's analysis puts Kentucky and Texas among the ten strongest states on five economic trend indicators: employment growth, home sales, mortgage delinquencies and foreclosures, and unemployment rate. Kentucky is benefiting from new auto plants. Employment in the Lone Star State has grown 7.8% since 1988, against 2.3% for the U.S. during the same period. ■

There are lots of good buys among small stocks, but the costs of buying and selling them detract greatly from their appeal.

Caught in the spread

BY LASZLO BIRINYI JR.



Laszlo Birinyi Jr. is president of Birinyi Associates, New York, a financial consulting firm.

THESE DAYS just about everyone is eager to tell you that small stocks are the place to be. What they don't tell you is that if you aren't careful the cost of buying and selling will eat you alive.

As with all stocks, some over-the-counter issues will do well in 1993, but not all of them. That is not what bothers me. My greater concern is the cost of trading those issues.

I recently completed a study of the o-t-c market and concluded that trading there is inordinately expensive, especially for the individual investor. Why? Because the costs of actually buying and selling are excessive.

The spread is the difference between the bid price and the sell price of a stock. For most major NYSE stocks that difference is one-eighth. AT&T, for example, currently can be bought at $53\frac{3}{8}$ and sold at $53\frac{1}{2}$. So if you buy AT&T it has to go up by one-eighth of a point before you are even and by one-fourth, prior to commissions, before you are in the black.

Assume you pay 25 cents a share commission. You decide to buy AT&T. Your broker tells you the last sale is $53\frac{1}{2}$ and the market is $53\frac{1}{2}$ to $53\frac{5}{8}$. You buy 200 shares at the market and

pay $53\frac{5}{8}$ plus 25 cents, or $53\frac{7}{8}$. A week later the stock is up by 2 points, to $55\frac{1}{2}$, or 3.7%.

Your broker now tells you the market is $55\frac{1}{2}$ to $55\frac{5}{8}$, and you sell your stock at $55\frac{1}{2}$, less 25 cents commission. The bottom line is that your stock is up 3.7%, but your investment has returned just 2.5%.

In the over-the-counter market, you have much bigger hurdles to get over. First, even the more active, significant issues usually have a one-half-point spread and often trade in half-point moves. For example, Amgen, which should be liquid and easily traded, had an abundance of trades that showed a one-half-point price change from trade to trade.

For the individual investor this creates a much larger hurdle than that posed in our example of AT&T. Currently, the average unlisted stock is priced at about $16\frac{1}{2}$. Giving that market the benefit of the doubt, let's assume only a one-half-point spread and a market of $16\frac{1}{4}$ to $16\frac{3}{4}$.

You buy 100 shares at $16\frac{3}{4}$ and pay a commission, unless your broker is selling you the stock out of his firm's inventory. For illustration purposes, let's take the middle course and pay a commission of 25 cents, so your total cost is now 17.

Let's say that after six months the stock is at $18\frac{1}{2}$, up by 2 points, or 12%. Your sell order finds the market to be $18\frac{1}{4}$ to $18\frac{3}{4}$, so you receive $18\frac{1}{4}$, less commission. The stock went up 2 points, but you made only 1—trading costs ate up half the gain. And that is assuming neither a best nor worst case.

My example also illustrates why so many of those model portfolios and newspaper recommendations show

such stellar results. Easy to do if you don't pay commissions or spreads.

While there isn't a great deal real investors can do to minimize the hurdles, there are several steps you can take. They include:

- Get the inside market, which is the best bid and lowest offering. Too often brokers tell you only how the traders are quoting the stock. If you force your broker to execute the order elsewhere, you might have to pay him a commission, but better a 25-cent commission than an extra half-point in spread.

- Don't use limit orders. There is no central marketplace; it is really a loose confederation of brokers—despite Nasdaq's ads. Limit orders will limit not only price, they will limit the exposure you get to your broker-traders. And remember, a limit order is based not on the last sale but on the bid or ask. So if you want to buy stock at $24\frac{1}{2}$, it may trade there or even below that price and your order might not be executed.

Institutions also have their problems with o-t-c trading. We examined the results of a variety of o-t-c funds. They substantially outperformed the S&P 500. But their real benchmark should be the Nasdaq Composite. There the results were not as overwhelming, and the 46 funds we examined underperformed on average by 11% in 1991 (up 45.3% for the funds, versus 56.8% for the average).

I'm not saying don't invest in o-t-c issues. I'm just saying don't trade them. Many of these small companies are wondrous long-term buys if you are a long-term buyer. Some of the ones that look good by my firm's yardsticks are:

MCIC (40) is under continuous accumulation, and while it was up 31% in 1992, buyers have not backed off.

Banks are a sector that I have previously suggested. Several unlisted bank stocks show up in our work, including *Midlantic Corp.* (20), *Collective Bancorp* (32) and *Society Savings Bank* (18).

Technology, biotechnology and other favored unlisted stocks don't make our list. These are not long-term, buy-and-hold stocks. Their fortunes change too rapidly. As for trading them, their o-t-c listing only lengthens those odds.

European central banks have been selling gold.
Is this the death knell of the shiny metal?
Or a sign of its underlying strength?

Don't give up on gold

JOHN BRIMELOW



Brimelow is director of international
affairs for BV Capital Markets, Inc., the
New York brokerage arm of Bayerische
Leasingbank, Germany's third-largest bank.

WHEN EVERYONE has written
something off, it is often on the edge
of making a recovery. So I think it may
be for gold.

Early on the morning of Jan. 12, it
was revealed that over the previous
three months the Dutch Central Bank
had sold some 400 tons of gold—
about a quarter of its reserves and an
astonishing 20% of last year's new
mine output.

Naturally, the gold bears were ec-
centric. Following a Belgian sale of 202
tonnes earlier last year, the Dutch
move meant that two of the handful of
central banks with large gold holdings
had finally appeared as sellers. The
Economist magazine, a traditional
Anglo-Saxon goldphobe, has editorial-
ized (Jan. 23) that private owners of
gold should now sell—because
central banks with 17 years' mine
production on hand have just realized
gold does not pay interest!

Not so fast. Last year saw an envi-
ronment of continued low inflation
expectations, high real interest rates,
large-scale forward selling by pro-
ducers and speculators, extensive liq-
uidation by Russia, Iraq, the Gulf

States and assorted lesser central
banks, gruesome technicals and a
virtual disappearance of Western in-
vestment demand. On top of this,
600 tons hit the market from major
central banks. Despite all these
downward pressures on price so far
this year, gold only fell from \$350 in
January 1992 to its recent \$330. It
must have taken a lot of demand from
private investors to keep the price
from falling much further.

In other words, by absorbing close
to a 50% increase in the flow of
bullion in the last quarter, gold has
vindicated those analysts who see
strong demand for gold and envisage
a longer-run equilibrium price rather
higher than \$550.

To understand what is going on
here you have to realize that the gold
market has fundamentally changed.
The gold price used to be driven by
U.S. inflation. Now it is driven by the
consumption of investment-type jew-
elry in the Far East, especially the
Chinese language communities.
Surging prosperity in that area has
resulted in a demand that reportedly
outpaced mine supply in 1992 for the
third year running, this time by the
unprecedented margin of over 50%.

I respect Frank Veneroso, proprietor
of Portsmouth, N.H.-based Newcastle
Commodities. Veneroso has emerged
as the intellectual leader of the gold
bulls. He describes his professional
strategy as searching for markets in
"deep disequilibrium." And he says
the current gold market is "the most
extreme case I have seen in some 30
years as an analyst and speculator."

Most of the reasons central banks
are urged to sell gold are wrong. Gold
may not return them interest income,
but holdings of foreign currencies—

the alternative—can show negative
returns; ask any central banker who
held sterling last year and this year.
National budget deficits generally
dwarf gold holdings. Besides, modern
financial techniques of lending and
call writing mean that gold holdings
can generate a return.

But what if central banks do contin-
ue to sell? Then market forces will
settle the dispute. Three times in re-
cent history, the authorities have tried
to repress precious metals markets.
Eventually, the authorities retreat.
The U.S. government/IMF gold sales
in 1977-79, the London gold pool in
1961-68, U.S. government silver
sales before 1964—all ended in huge
price breakouts. The markets did not
even have to absorb the last bar of
metal in the reserves. Unflinching de-
mand broke the authorities' will.

Now the Dutch and other official
sales have dispelled the mystery of
the weak performance of gold since
late 1989.

Yes, prolonged selling of gold by
central banks is a problem, but a finite
problem. I believe the selling of gold
by the central banks is directly con-
nected to the continuing death throes
of the European Monetary System.
The EMS obliges the countries with
strong currencies to buy the weak
currencies; last year the Belgians and
Dutch had to swallow at a loss huge
amounts of lira, sterling, escudos, pe-
setas and punts. Probably this precipi-
tated their decision to sell gold to
rebalance their exchange portfolios
with stronger currencies. I think the
whole European currency fiasco will
be resolved within the year. Then, as
gold dumping by central banks eases
off, the strong underlying demand
will take over. Gold will surge. ■

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What's up at Affiliated?

REPORTERS AT the *Boston Globe* have been spending a lot of time checking their Bloomberg screen and calling their brokers. The reason: Rumors have been flying that \$414 million (sales) Affiliated Publications Inc., which publishes the *Globe*, is about to be sold.

On hopes of a deal, investors bid Affiliated's NYSE stock up to 14½ on big volume in mid-January. Billionaire Edward (Ned) Johnson III, 62, whose family owns mutual funds giant Fidelity Management Corp., supposedly was interested but was rebuffed. Also rumored: Washington Post Co. and A.H. Belo Corp., publisher of the *Dallas Morning News*.

But no deal has materialized as yet, and the stock has backpedaled to a recent 12.

Such rumors aren't new, of course. Trusts for the widely dispersed Taylor and Jordan families control Affiliated through their 82% ownership of its 20 million-odd Series B supervoting shares. (William O. Taylor, 60, is Affiliated's chairman.) These trusts expire in January 1996. Another prominent beneficiary of a sale would be funds managed by Mario Gabelli; these funds own 15% of the roughly 50 million Series A shares.

Last year, with the stock at 10¼, Streetwalker asked Gabelli & Co. analyst Salvatore Muoio what Affiliated was worth (*FORBES*, Mar. 16, 1992). He put its value, come January 1996, as high as \$24 a share—that would be a 26% compound annual growth rate from today's \$12-a-share price.

Muoio hasn't changed his mind about Affiliated's long-term value. But what if the company were sold today? On a cash flow basis—earnings before depreciation, interest and taxes—Affiliated generated \$74 million in 1992. Muoio's estimate for 1993 is \$85 million. Although New England is only in the early stages of recovery, Muoio thinks a buyer would be willing to capitalize that \$85 million at a minimum 13 times. This would make for at least a \$1.1 billion deal, or \$16 a share—a 30% premium to market.

Muoio notes that the basis on the stock held by the Taylors and Jordans is extremely low, so a tax-free stock swap would make a lot of sense. The Washington Post Co. (market value:



Affiliated's William O. Taylor
Rumors of a sale are flying.

\$2.8 billion) has stock to trade. So does Dow Jones & Co. (\$3 billion). Stay tuned.

Ma Bellwether?

WITH IBM in Wall Street's doghouse, will AT&T become the stock market's new bellwether? "The market would like to find something to replace IBM with," says Gregory Sawers, a telecommunications analyst with Sanford C. Bernstein & Co. "The argument to replace it with AT&T is that AT&T is a global leader in a growing high-tech business, is financially solid as a rock, with a large capitalization. Those are all of the characteristics that IBM used to have."

Wrote Cowan & Co. investment strategist Richard Hoffman in a recent report: "The market's shift in symbolic leadership from IBM to AT&T is supported by the fact that [last year] AT&T made the largest positive contribution to S&P 500 earnings per share, while IBM made the largest negative contribution." For the first nine months of 1992 AT&T accounted for 42 cents of operating earnings per share out of \$23.95 for the S&P 500 companies. IBM accounted for a negative 33 cents—not counting a 64-cent-a-share writeoff.

Institutional investors currently own about a third of AT&T's 1.34 billion shares, up from 23% at the end of 1990. That's still far less than the typical S&P 500 company, where two-thirds institutional ownership is more common. As more and more institutions load up on AT&T shares as a core holding in their portfolios, the bellwether effect could well expand

AT&T's P/E from 19 times trailing 12-month earnings to something approaching the S&P 500 multiple of nearly 25.

At present, plenty of analysts are urging caution. Indeed, last year AT&T stock rose from 36 to 55, partly because of increased institutional interest in the shares. (Recent price: 53½.) But Bernstein's Sawers is a bull. Considering AT&T's global growth prospects, its current 19 P/E could well be cheap compared with some of the outrageous multiples that investors are paying for stocks of some smaller weaker companies these days.

—GARY SLUTSKY

Fishing with the Basses

BECKMAN INSTRUMENTS, INC., headquartered in Fullerton, Calif., makes diagnostic products and laboratory systems for biological analysis. Between 1988 and 1991, earnings per share slumped from a record \$1.49 to \$1.32 because of cuts in government research spending and restructuring charges related to plant consolidations and layoffs.

But \$905 million (estimated 1992 sales) Beckman is making a comeback. Among the reasons, NatWest Securities analyst Mary Conway: more sales by its bioanalytical division to private-sector biotech and pharmaceutical companies; a well-received new line of diagnostic instruments; a leaner cost structure. She estimates Beckman earned \$1.50 a share last year and will earn \$1.70 a share in 1993.

Note this: An investor group led by the Bass family owns about 1.5 million Beckman shares, or just over 5% of the 28.5 million total common shares outstanding. In a late December filing, the group disclosed it was pursuing "the possibility of enhanced representation" on Beckman's board. This has fueled speculation that the Basses are looking to trigger Beckman's sale. Recent NYSE price of Beckman's stock: 23½, up over 25% since late July.

Conway isn't predicting a takeover. But she does note that last year Applied Biosystems, a competitor of Beckman's, merged with PerkinElmer in a stock swap that valued Applied at about 25 times its estimated

earnings power in 1993. On that
analyst Conway says that Beck-
would be worth around \$42 a
a 75% premium over the cur-
market price.

isses or no, Conway likes the
on fundamentals. But the fact
they have taken a particular inter-
Beckman Instruments, she says,
can't hurt."

With debunker

MARK STUMPP, Newark, N.J.-based
research director of Prudential Diver-
Investment Strategies, helps al-
te over \$12 billion of assets. To
end, he often examines so-called
investment wisdoms to see if they
really hold water. One such con-
Stumpp recently examined is
notion that low stock market vola-
in year one implies a bumpy road
year two. A corollary to this postu-
Complacency one year portends
own market the next.

after looking at the empirical evi-
ence, Stumpp says this particular
convention "belongs on the covers of
market tabloids, next to the El-
sightings."

Stumpp says that in terms of stock
market volatility, 1992 was the
fourth-lowest year since 1926. But he
looked at the ten lowest-volatility
years since 1926—in increasing order
movement they were 1964, 1958,
1972, 1992, 1944, 1959, 1965,
1961, 1953, 1977—and the years
following them. While Stumpp found
that volatility the following years
ended to be higher, it was still well
below the average volatility for the
entire period. The single exception
was 1962, when the Cuban missile
crisis led to a year that was more
volatile than normal.

Stumpp also debunks the corollary
that low rates of return follow years
with low volatility. Again taking the
years with the least volatility, he
found that returns in the following
years ranged from minus 15%, in the
1973 recession, to plus 53% in 1954,
following the end of the conflict in
Korea. In short, there is no such
relation.

So what does Stumpp see for 1993?
"The most sensible expectation," he
says, "is that it will be an average year
with normal volatility." ■

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...the more things change..."

20 years ago in FORBES

(FROM THE ISSUE OF MAR. 3, 1923)



mechanized road-building, early 1920s.

American business is approaching the crossroads. If things keep on as they are going, the words on everyone's tongue shortly will be "The Business Boom."

Why all this fuss over the dinky old chariots of Tutankhamen? Henry Ford turns out 1,000,000 chariots a year, many of which has Tut's skinned a mile."

10 years ago

(FROM THE ISSUE OF MAR. 1, 1933)

Don't envy Henry Ford these days. What with being blamed for fostering labor troubles at Detroit because of



Mar. 1, 1933, Franklin Roosevelt, not yet in office, had missed assassination attempt and faced spreading bank closings.

his hard bargaining with suppliers of materials and having his name dragged by Michigan's Governor into the Detroit banking trouble—however unjustly—Mr. Ford presumably is a harassed, unhappy mortal, since he is, like most men of mammoth imagination, extremely sensitive."

"In February, Big Four cigarette prices took their second plunge of the year, bringing the wholesale price per thousand down from \$6 to \$5.50. . . . A&P stores promptly announced retail prices of 10 cents a pack, \$1 a carton; Safeway followed, quotes cartons at 99 cents."

"At least one leading electrical company has been experimenting with the possibilities of using refrigeration-heat as a substitute for other methods of domestic heating. In the winter of 1931-1932, an occupied house was successfully heated by taking cold air from outdoors, extracting heat from it, and liberating that heat inside the house."

50 years ago

(FROM THE ISSUE OF MAR. 1, 1943)

"The democratic theory of food, which has had its first scientific mass tryout in the American Army in the past two years, [seeks to fit] the food to the soldier. Its dramatic success is illustrated in an obscure report by the Army nutrition staff, which reveals that the average soldier in our new Army is gaining 6 to 10 pounds in weight in his first three months in service."

"Twenty-five years ago, Kipling's description of Canada as 'Our Lady of the Snows' was appropriate; today 'Our Lady of the Blast Furnaces' would be more fitting. For two wars in a generation have revolutionized the character of the country in a manner that could not have occurred in a century of peace."

25 years ago

(FROM THE ISSUE OF MAR. 1, 1968)

"The results have been spectacular for Anheuser-Busch. In an industry whose overall growth has been only 44% since 1955, [it] has boosted net sales 175% and more than quadrupled earnings per share. This rate of sales

growth was almost double that of its biggest rival, Milwaukee's Schlitz Brewing Co., and Anheuser-Busch's earnings growth was more than five times as great."



Gussie Busch used profits from Anheuser-Busch's beer business to buy the St. Louis Cardinals baseball team and thereby kept it from moving out of town.

"What did AT&T, Ford, GE, Texaco and U.S. Steel have in common last year? IBM passed them all in either stock market value, profits, sales or assets."

10 years ago

(FROM THE ISSUE OF FEB. 28, 1983)

"Boarding schools are snobbish places filled with rich kids from broken homes, right? Wrong, says a survey of 3,000 new students at 40 boarding schools across the country. . . . The survey of a cross section from America's 220-odd boarding schools found that nearly half the students are the first in their families to attend boarding school and that more than half have gone to public schools before. Three out of four come from families where the natural parents are married and living together, and nearly half the students' mothers work outside the home."

"Could it possibly be that bank trust departments are becoming first-rate money managers? Last year the median investment return of bank trust departments (24.6%) topped that of independent investment counselors (23.5%) for the second year in a row. That hasn't happened since 1975."

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—B.C. FORBES

A Text...

Train up a child in the way he should go: and when he is old, he will not depart from it.

—PROVERBS 22:6

Sent in by Ann C. Rios, Woodbridge, N.J. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Man is an exception, whatever else he is. If it is not true that a divine being fell, then we can only say that one of the animals went entirely off its head.

—G.K. CHESTERTON

A treasure is to be valued for its own sake and not for what it will buy.

—GRAHAM GREENE

I've been on a constant diet for the last two decades. I've lost a total of 789 pounds. By all accounts, I should be hanging from a charm bracelet.

—ERMA BOMBECK

A calamity that affects everyone is only half a calamity.

—ITALIAN PROVERB

Shower on him every blessing, drown him in a sea of happiness, give him economic prosperity such that he should have nothing else to do but sleep, eat cakes, and busy himself with the continuation of the species, and even then, out of sheer ingratitude, sheer spite, man would play you some nasty trick.

—FYODOR DOSTOYEVSKI

Dreams and beasts are two keys by which we find out the keys of our own nature.

—RALPH WALDO EMERSON

I've never had any pity for conceited people, because I think they carry their comfort about with them.

—GEORGE ELIOT

Wise people may say what they will, but one passion is never cured by another.

—LORD CHESTERFIELD

Success didn't spoil me; I've always been insufferable.

—FRAN LEBOWITZ

It is more from carelessness about the truth than from intentional lying that there is so much falsehood in the world.

—SAMUEL JOHNSON

Is there really someone who, searching for a group of wise and sensitive people to regulate him for his own good, would choose that group of people who constitute the membership of both houses of Congress?

—ROBERT NOZICK

Courtship brings out the best. Marriage brings out the rest.

—CULLEN HIGHTOWER

No one hates his body.

—ST. AUGUSTINE

Of all discriminations—

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Forever or until?

—ART BUCK

One out of four people in this country is mentally unbalanced. Think of your three closest friends; if they seem OK, then you're the one.

—ANN LANDERS

Man must sit in chair with mouth open for very long time before roast duck fly in.

—CHINESE PROVERB

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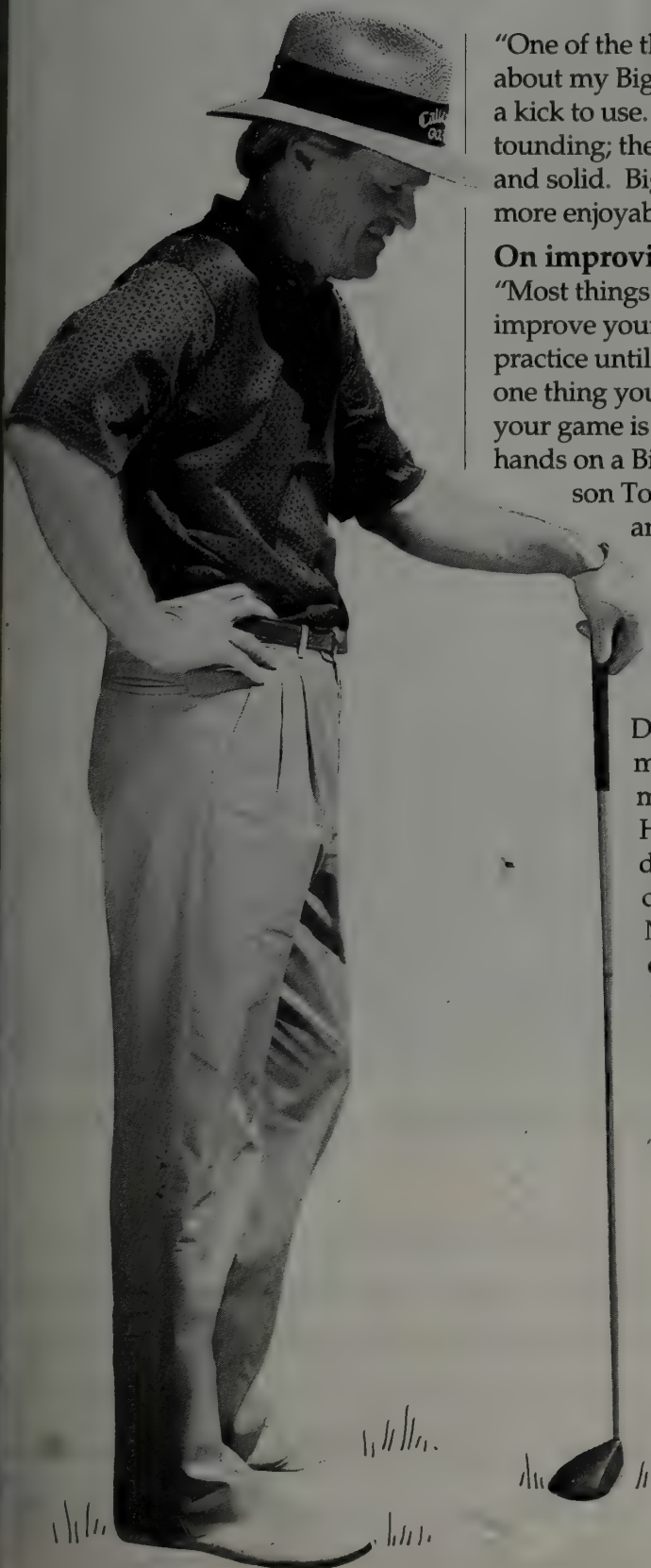


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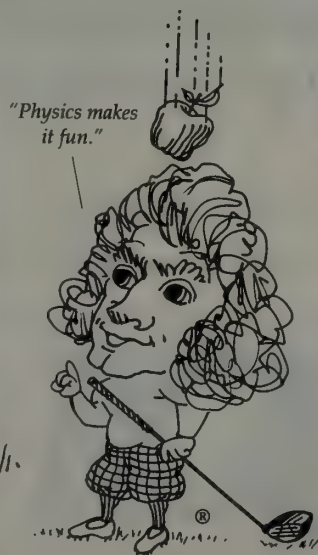
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SAAB

Since 1980 Justice's payroll has swelled from 53,400 to nearly 98,000. Any bets how big it will be under Clinton—100,000? 110,000? More?

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the Great Grab
how the score
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PC addiction is like drugs.
To support their habit,
geeks deal to others, becom-
ing pushers encouraging
others to become addicts.

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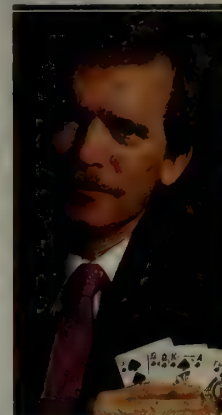


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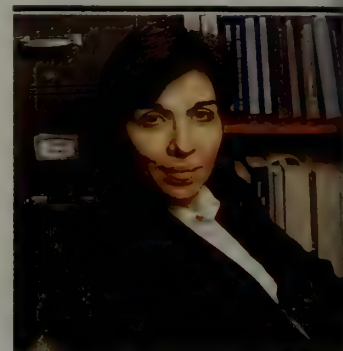
WILL YOU SLEEP SAFER in your bed tonight knowing that:

It is a federal crime to take false teeth across state boundaries without the approval of a local dentist?

The federal government will prosecute people who reproduce the image of Smokey the Bear without permission?

The feds have been known to go after someone for lying to avoid paying fines for parking violations?

Janet Novack learned that these are just a few of the lengths you federal government will travel in its passion to protect you from real and imagined dangers. Whereas the Founding Fathers defined 3 crimes as requiring the attention of the federal government, Novack discovered, their successors have defined an additional 3,000. Is it any wonder the Justice Department is Washington's fastest-growing bureaucracy? Novack's account of bloat and meddling, "How about a little restructuring?" begins on page 91.



Janet Novack

While Novack focuses on the microcosm of big government, Peter Brimelow focuses on the macrocosm. Refuting the myth that the federal deficit is our biggest economic problem—a myth President Clinton seems to accept uncritically—Brimelow fingers the real villain for our sluggish economy: government's urge to grab large and larger shares of the national income. "Why the deficit is the wrong number" starts on page 79.

FORBES readers may recall James Q. Wilson for his excellent essay entitled "The contradictions of an advanced capitalist state," in our 75th Anniversary issue (Sept. 14, 1992). Professor Wilson has also written a fine book, *Bureaucracy*. In it he argues that the constant growth in government is an inevitable consequence of the public's almost religious faith in government's responsibility to fix all the ills that afflict mankind. Damon Darlin interviewed Wilson for "Collective lunacy," on page 96.

Heat-seeking geeks

WHERE DO REPORTERS get their best ideas? Sometimes from personal experience. David Churbuck, our Massachusetts-based computer/communications writer, began to get an uneasy feeling recently. Were computers and related gadgets taking over his life? He'd finish a day's reporting for FORBES and immerse himself in one of his four computers, his 650-megabyte magneto-optical rewritable drive and his fax modem with optical character recognition. Churbuck was showing symptoms of Geek Syndrome. That realization got him to investigate the disease. How many have it? How do you know whether you have turned into a heat-seeking geek? (If you spend as much as 12 hours a day hunched over a computer, you probably have.) For more on computer addiction and its symptoms, see "Superduperitis," page 120.

James W. Michaels
Editor

SOMETIMES ALL YOU HAVE TO DO TO BE A VISIONARY IS OPEN YOUR EYES.

Doing certain things with your eyes closed can be quite impressive. Performing a high wire act, for instance. Business, however, is an entirely different matter.

We believe that a financial services company can only spot opportunities with its eyes open. Yet to our surprise, this rather straightforward, common-sense way of thinking has led many to consider us innovative.

Truth is, we are simply business people who understand that the shortest distance between two points is a straight line. Opening our eyes to evolving management techniques and the latest efficiencies that technology offers has put us on that line.

Keeping our eyes open will take us into the future. If some call that being visionary, hey, who are we to argue?



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Kentucky crackdown

THIRTEEN MONTHS AGO FORBES cast a wary eye on Kentucky Central Life Insurance Co. (Dec. 23, 1991). Non-performing real estate loans and foreclosed real estate were growing at an alarming rate; the company's credit rating was lowered twice in six months. The insurer also had a disturbing pattern of making dubious loans to former agents and individuals with ties to management.

The blowup came last month, when Kentucky Insurance Commissioner Don Stephens took control of the \$1.8 billion (assets) company. Stephens appointed insurance department veteran Windell Clark to replace Kentucky Central Chairman W.E. (Bud) Burnett Jr., who resigned. To stanch a flood of requests by policyholders to cash in their policies, Stephens imposed a six-month moratorium on policyholder withdrawals.

Stephens' action came the day after California's insurance commissioner, John Garamendi, ordered Kentucky Central to stop writing new business in the state. California regulators had concluded the company needed to bolster reserves by at least \$60 million to cover potential losses on real estate.

On Wall Street, Kentucky Central's stock was recently at 3, down from its 52-week high of 10.—JOHN H. TAYLOR

Smoother sailing ahead?

THE CRUISE INDUSTRY enjoyed quite a party in the 1980s. By late 1990, however, capacity additions were outstripping growth in passenger volumes. Discounting was rampant. Ted Arison, the majority owner of Carnival Cruise Lines, Inc., had seen the value of his stake drop about \$1.2 billion, to \$1.3 billion, in just six months. To FORBES it seemed the industry was in for more rough weather (Dec. 10, 1990).

Turns out the storm wasn't nearly as bad as we thought. Although Carnival's revenues were essentially flat last year, at \$1.47 billion, net income grew 11%, to a record \$282 million. Carnival's stock was recently at 34%, up from 13 in late 1990. Value of Arison's stake today: over \$3 billion.

At North America's second-largest operator, Royal Caribbean Cruises Ltd., revenues jumped 32% last year,

to \$1 billion. Earnings hit a record \$61 million. Currently owned by Chicago's Pritzker family and European investors, Royal Caribbean is expected to announce a public offering soon. Even though the company has long-term debt of around \$1 billion against tangible equity of just \$92



Floating hotels at the port of Miami
More vessels are on the drawing board.

million, Chairman Richard Fain says it wasn't a problem arranging financing for a recently announced plan to build up to three new vessels, at a cost of as much as \$1 billion.

Will the new ships bring on a new wave of discounting? Fain doesn't think so. "The growth in capacity in the coming years will certainly be a lot slower than the growth in demand over the last few years," he predicts.

Smart TV

A YEAR AND A HALF ago FORBES offered a glimpse of the future of home electronics—the smart TV, a machine born of the convergence of television sets and computers (Oct. 14, 1991). Utilizing the digital language of computers, smart TVs would display images of near high-definition quality and would have a rich interactive dimension akin to desktop computers.

The big question: Would U.S. industry press its advantage in computers and digital technology to win back a large chunk of the home entertainment market from the Japanese?

One promising sign came from Frox, Inc., a Silicon Valley startup backed by European investors. Frox had developed a smart TV that combined a computer workstation, custom microchips and Frox-designed software. But Frox stumbled as its chief executive, Austin Vanchieri, tried to make the system too complex

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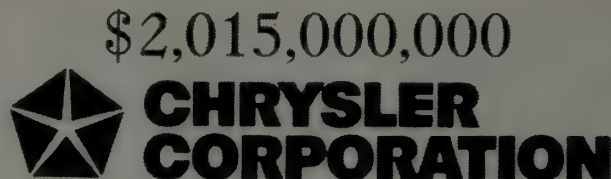
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Last July Frox's backers forced Vanchieri out. In came Michael Watts, a turnaround specialist. Watts recently launched a revamped machine, and says he hopes to reach break-even by year-end. But the product won't appeal to the average touch potato: Installations are running anywhere from \$25,000 to \$100,000, says Watts, depending on the number of rooms involved and other factors.

Watts has a theory about why PCs haven't yet been as big a hit in the home as in the office. "We think the killer application for home computers has to do with information and entertainment," says he, "not so much spreadsheets and word processors."

Sam and Libby try again

SAM AND LIBBY EDELMAN (Apr. 13, 1992) left their jobs at a trendy San Francisco retailer in 1987 to launch a line of shoes inspired by the ballet slipper. Gusher! In 1991 their California-based Sam & Libby, Inc. earned \$8.6 million on sales of \$85 million. Taking the company public later that year, the Edelmans pocketed \$12 million and still owned 54% of



Sam and Libby Edelman
Fashion was fickle.

the company. The stock rose to 24 from the offering price of 14½.

The next noise you hear is the air escaping from the Edelman balloon. The company sank faster than it rose. After big markdowns in the fourth quarter, Sam & Libby probably lost about \$2 million, or 19 cents a share, last year. The stock was recently at 4.

With a new line of shoes hitting the stores, Sam Edelman insists things are back on track. "We're very turned on, very focused," he bubbles. Monica Graham, an analyst with Gilford Securities, predicts the company will earn 35 cents to 40 cents a share this year. But that would still be a long way from justifying that IPO price of 14½.

*He offered me his red leather chair
and said "Congratulations, Mr. Chairman."
We were in the boardroom.*



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Smashing returns

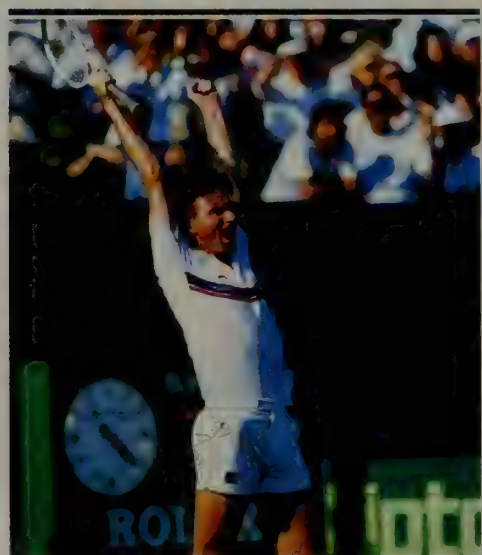
JOHN CONNORS is tennis star Jimmy's older brother and a real estate developer in their hometown of Belleville, Ill. In early 1991 John guaranteed a \$4 million bank loan to Argosy Gaming Co. Argosy runs the *Alton Belle*, a casino riverboat based in Alton, Ill., about 40 minutes from St. Louis. In return, he got stock in Argosy.

Until the fall of 1991 brother Jimmy showed no interest in the deal. But then he saw Argosy's *Alton Belle* in operation and persuaded John to cut him in for half of his sibling's action.

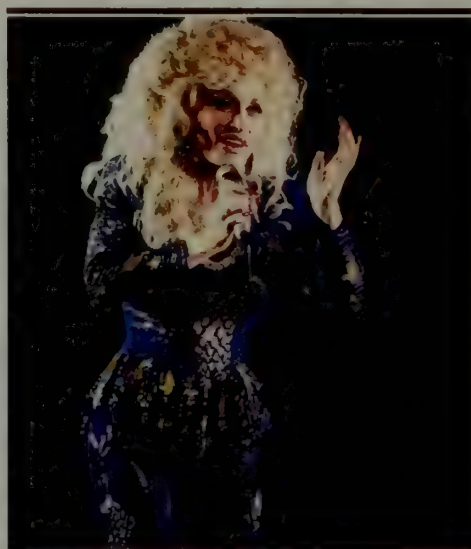
Smart move, Jimmy. Over the next year and a half the Connors brothers' share of the boat's profits exceeded \$6 million. Then, on Feb. 18, \$57 million (1992 revenues) Argosy was brought public by Donaldson, Lufkin & Jenrette at \$19 a share. The Connors brothers sold an estimated 416,000 shares in the initial public offering, netting nearly \$8 million. At the offering price, the brothers' remaining 19% stake in Argosy was worth \$87 million.

It's a good thing John, 41, and Jimmy, 40, took some cash out. The public offering valued Argosy at \$460 million—8 times revenues and 62 times last year's pro forma earnings. Argosy has announced plans to build a new boat and expand into Louisiana and St. Louis, right in the teeth of a gambling glut (FORBES, Mar. 1). Argosy's value could well fall nearly as quickly as it rose.

—CHRISTOPHER PALMERI



Jimmy Connors
Also a winner off the court.



Dolly Parton
Houston connection.

Why Dolly loves Whitney

SINGER Dolly Parton's career has lately stalled a bit, but her bank account is about to bulge. In the hit movie *The Bodyguard*, singer Whitney Houston does a smashing rendition of "I Will Always Love You," a song written by Parton and first released on an album of hers in 1974. Thanks to the film, "I Will Always Love You" has been number one on the pop charts for 14 weeks, longer than any tune since 1947. And Houston's latest album, which includes the song, has sold 15 million copies worldwide.

With royalties from the single, the album and the broadcast rights, Parton stands to make millions. Says her manager, Sandy Gallin: "The time spent writing the song was a great investment." —LISA GUBERNICK

Withering asset

DANIEL HARMETZ, a mutual fund manager for Boston's Fidelity Investments, wants to sell something he doesn't yet own.

In 1991 Bally's Grand Inc., the Bally Manufacturing Corp. subsidiary that operates a Las Vegas casino/hotel, filed for Chapter 11 bankruptcy protection. The property is security for \$200 million of Bally's Grand's first mortgage bonds. The mutual funds Harmetz runs own a slew of the bonds. Under the terms of the Bally's Grand reorganization plan approved by a bankruptcy court last October, those bonds are to be exchanged for

new stock in Bally's Grand. The reorganization would give Harmetz's funds some 40% of the new company's equity.

Poor Harmetz. He wants to sell the casino. But even though the court approved the reorganization, the transfer of stock to the Fidelity fund is being held up by the Nevada Gaming Commission. (Harmetz declined to comment.) As the Nevada regulators dither, the Bally property faces increased competition, with three more casinos set to open in Vegas later this year. —LAURA JERESKI

Danny, we thought we knew ye

REPRESENTATIVE Daniel Rostenkowski (D-Ill.), chairman of the House Ways & Means Committee, has been in hot water for allegedly misusing campaign contributions. Now another skeleton is falling out of the powerful Democrat's closet: the bankrupt Presidential Towers, four residential high rises situated in downtown Chicago.

One of the project's developers was Daniel Shannon, a Chicago accountant.



Representative Daniel Rostenkowski
He used his congressional powers for Presidential Towers.

tant and longtime political appointee who once served as Rostenkowski's personal financial adviser. Shannon and his partners secured a \$171 million mortgage for the Towers from the Department of Housing & Urban Development. Normally HUD monies requires that one-fifth of the units in residential building be set aside for low- and moderate-income tenants.

ut the developers wanted to market residential Towers to wealthy Chicagoans who wouldn't much like rubbing shoulders with down-and-outers.

To the developers' aid rode Rosenkowsky, who slipped an amendment into law during the 1980s that specifically exempted Presidential Towers from the 20% set-aside rule. Alas! Chicago is so overbuilt that in 1990 Presidential Towers went bust anyway, making it the biggest default ever on a HUD federal mortgage. Now local activist groups are pushing HUD to open a portion of the project to low-income people, including the homeless.

—GARY SLUTSKER

Texaco vs. Pennzoil II?

TEXACO INC. is getting into the quick oil change franchise market. After a two-year test at nine Texaco-owned service stations in the Southwest, its Star Lube program will be marketed to the 13,850 stations across the U.S. that sell Texaco-branded gasoline and other oil products. The one-bay, two-person Star Lube operations cost from \$121,000 to \$184,000 to con-



A Star Lube outlet

Texaco joins the quick oil change fray.

struct and involve a one-time \$10,000 franchise fee. Texaco isn't charging a royalty.

Texaco says that its motive in developing Star Lube is to help its dealers make more money. But some oilmen think Texaco wants to get back at Pennzoil Co., which in 1986 collected \$3 billion from Texaco over Texaco's purchase of Getty Oil. Pennzoil owns Jiffy Lube, the biggest chain in the franchised lube business.

Pennzoil isn't fazed by Texaco's plans. Sniffs a Pennzoil spokesman: "They sell motor oil; we sell motor oil."

Lawyers outfoxed

CONTINGENCY-FEE lawyers thought they saw gold in the wreckage left in southern Florida last August by Hurricane Andrew. Their plan: Sue home builders for shoddy construction, and collect lots of additional damages for pain and suffering, cumulative trauma and the like. In September Miami-based Lennar Homes, Inc. was hit with a class-action suit representing about 350 homeowners. Lennar's Big Board stock, which sold for 30 before Andrew, dropped to the low 20s.

But then the insurance companies threw a monkey wrench into the lawyers' plans. They made fast deals with the homeowners, settling damages and paying checks out, all within three months. The problem for plaintiff lawyers is that once homeowners have accepted insurance payouts, it is unlikely they can successfully sue for pain and suffering.

One result: Hopes for a big payoff from that class-action suit against Lennar have fizzled, and Lennar's stock has recovered to pre-Andrew levels.

—SETH LUBOVE

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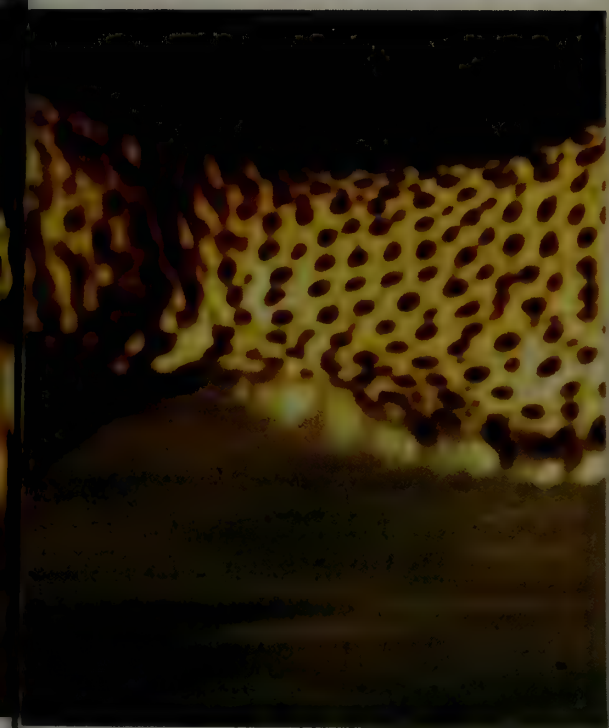
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READERS SAY

Fee flap

SIR: Re "Mutual fund fee madness" (Feb. 15). Don't confuse business with charity. Mutual fund fees pay for professional investment and value-added advisory services.

—STEPHEN M. DAIL
Vancouver, Wash.

SIR: Perhaps, as FORBES has suggested with mutual fund commissions, FORBES' subscription should also be negotiable?

—JOHN T. BARBOUR
Verona, Pa.

SIR: All fees are fully disclosed in an easy-to-read table in the fund prospectus. We don't know of any other financial product that provides more detailed disclosure on fees.

—MATTHEW P. FINK
*Investment Company Institute
Washington, D.C.*

Don't laud Truman

SIR: Although I am a longtime subscriber and admirer, I must disagree with your lauding Harry Truman's response to Stalin's siege of West Berlin in 1948 ("Fact and Comment," Feb. 15). Truman's response was far from decisive. He should have sent a column of tanks up the road from West Germany to Berlin and immediately broken the blockade. Stalin would have had to back down; the Soviet Union was in ruins and we still had a monopoly on the bomb.

—C.R. CROWTHER
Escanaba, Mich.

Librarians can do!

SIR: "Good-bye, Dewey decimals" (Feb. 15) leaves the impression that advances in technology will diminish the role of librarians. Being comput-

er-literate is not the same as being information-literate. With an overabundance of data available, specialized education, experience and expertise is required to locate, acquire, analyze, evaluate and package that data and put it to work for an organization. That is the role of the special librarian.

—DAVID R. BENDER
*Executive Director
Special Libraries Association
Washington, D.C.*

SIR: C'mon FORBES, many professional librarians have dual degrees in computer and library science.

—JANE SHELTON
Chicago, Ill.

Quota costs

SIR: Re "When quotas replace merit, everybody suffers" (Feb. 15). In a polygenetic society, race is unknown and unknowable for social and political purposes. If the politicians and courts had made that judgment early on, the entire quagmire could have been avoided.

—HORACE D. MCCOWAN JR.
Richmond, Va.

SIR: We are not doing these people, or our society, any favors by rewarding them without requiring performance in return.

—JONATHAN MURRAY
Mountain View, Calif.

SIR: As an employee at one of the "big three" in Detroit, I have seen firsthand how quotas and timetables, by replacing the practice of rewarding an employee based on his or her performance and abilities, have damaged morale and productivity.

—ROBERT W. DECRIK
St. Clair Shores, Mich.





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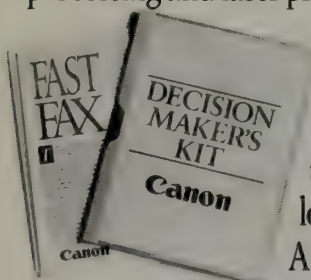
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Canon

SIR: American society has had substantial opportunity to elicit the participation of all members in educational and employment endeavors without government involvement. Has this been done? No.

—RHONDA HOSEY
Waukesha, Wis.

SIR: No one doubts that affirmative action programs cost money, both in enforcement and, in some cases, through reduced productivity. Your article, however, makes no mention of the nonmonetary gains to society. Since the benefits cannot easily be quantified, the operative question, in a world where affirmative action exists, becomes whether the costs are unnecessarily high, and if so, what can be done to reduce them.

—ALEC P. TRACY
New York, N.Y.

Art for commerce's sake

SIR: "Resort Art" (Jan. 18), while accurate in its assessment of venality and disingenuousness, leaves standing, and even bolsters, the major auction houses, museum curators and art critics. Your elevation of curators, critics and auctioneers as those who will tell us the difference between "commercial art" and "fine art" is nothing short of propaganda. This is America: All art for sale is commercial

art. Sotheby's and Christie's are not in the business of selflessly promoting nonmarketable "fine art" any more than the galleries are.

—MILES W. MATHIS
Austin, Tex.

SIR: You are right on when it comes to LeRoy Neiman. During an interview with the *New York Times* some years ago, he was asked, Do you consider yourself an artist or a social phenomenon? Neiman stormed out of the room. Apparently, the interviewer had it right.

—DAVID SHIREY
New York, N.Y.

SIR: A small percentage of the public tries to invest in art for profit; the rest do so because they love what they acquire.

—GITI UNDERHILL
Palos Verdes, Calif.

Devil's vehicle?

SIR: Re your article on "wash loan" programs through life insurance ("Wash out," Jan. 18). In these trying times, I can't believe you are depicting the insurance agent as the devil. America needs incentives to save, and this is a great vehicle.

—WAYNE W. BRADSHAW
President
Bradshaw & Bradshaw Brokerage
Redondo Beach, Calif.

High on New Mexico

SIR: I take issue with your reference to New Mexico's "viciously antibusiness atmosphere" (Dec. 7, 1992). During my tenure in the New Mexico House of Representatives, the legislature has enacted a variety of pro-business legislation. General Mills just opened a new \$100 million cereal processing facility here. New Mexico is the site of three of the largest and most prestigious research laboratories in the nation. The state ranks among the top nine with the fastest growth in per capita income in 1991.

Visit New Mexico.
—RAYMOND G. SANCHEZ
Speaker of the House
State of New Mexico
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Santa Fe, N.M.



Roy Neiman and his art
Artist or social phenomenon?

"He was great at strategy, he just never got anything done."

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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*



GENUINE VOODOO

PRESIDENT CLINTON'S recovery package will harm the economy, short term and long. It doesn't remove the roadblocks that bar the economy from growing as rapidly as it could. Washington's red ink results principally from flaws in our tax code. Taxes, especially on capital gains, are too high. Lesser culprits include the way we finance health care; the way we conduct our monetary policy; regulatory overkill and a flawed legal system.

If by magic we could make the national debt and the budget deficit disappear, the barriers to full prosperity would remain largely intact. The economy wouldn't expand much faster.

In short, we don't have a weak economy because of the deficit; we have a budget deficit because of a weak economy.

Too many politicians and economists don't appreciate that taxes are not only a means of collecting revenue but also the price we pay for working, for making a profit, for successfully taking risks. If the price of these good things goes up, we get fewer of them. Which means we get a less vibrant economy. Which, in turn, means Washington gets less revenue. It's that simple.

Jimmy Carter raised taxes and the economy faltered. Bush raised taxes and the economy faltered. Reagan cut taxes and the economy boomed. John Kennedy proposed

similar incentives and the economy expanded. So why is President Clinton following the Carter-Bush route instead of the Kennedy-Reagan route? Why are so many smart people so oblivious to experience?

The President has acknowledged that small businesses create most new jobs. The most potent stimulant for innovation and job creation is reducing the capital gains tax, making it easier for money to flow from old investments to new ones. By comparison, an investment tax credit is pitifully weak, and Clinton's watered-down capital gains tax relief will help lawyers more than business.

Moreover, getting rid of the deficit is in and of itself no guarantee of prosperity. Britain ran huge surpluses in the late 1980s, yet its economy shrank, and inflation and interest rates shot up. Japan virtually balanced its budget by 1991, yet its economy is, by Japanese standards, a shambles.

There is a right way to fight the deficit—tax cuts and sound money—and a wrong way—tax increases and bad monetary policy. Discouragingly, the President will propose another bevy of taxes when he unveils his health care reform. All signs point to more price controls and rationing instead of applying free-market principles that work so well with other basics such as food, shelter and transportation.

Imagine, we must now look to Congress to save us.

BLOODY WRONG

THE U.S. WILL MAKE a deadly mistake in sending troops to Bosnia as part of a U.N. peacekeeping force. Such a move will end up being a bloody, Beirut-like fiasco. Americans will be killed; the peace won't be kept; and isolationist sentiment at home will be inflamed.

How could it be otherwise? Ground forces will be lightly armed. There won't be enough of them to be a credible deterrent to Serbian aggressors or to other local militant militias.

Yet these soldiers will be expected to police the cease-

RFE/RL—MORE IMPORTANT THAN EVER

By MSF Jr., upon receiving the Freedom House Freedom Award
on behalf of Radio Free Europe/Radio Liberty

IT'S A GREAT PLEASURE to receive the Freedom Award on behalf of Radio Free Europe/Radio Liberty (RFE/RL). I would like to acknowledge the other honoree tonight, Mr. Lane Kirkland of the AFL-CIO.

Lane is one of the most extraordinary fighters for freedom of this century. The most vivid example of his tenacity in the face of adversity was when Poland's

Solidarity was crushed by a declaration of martial law in 1981. Many people felt that that was the end of Solidarity and Poland would have to wait for many years to have its day in the sun of freedom. But Lane Kirkland and the AFL-CIO kept Solidarity alive in those dark days; they did it through infusions of

(continued on page 146)

fire lines and "monitor" heavy artillery.

There is no incentive for Serbia's Hitleresque ruler to adhere to this latest peace plan. Europe won't use force against him. Milosevic also knows that American casualties will create pressure for an American pullout.

We could still send arms to the Bosnians and other victims of Serbian aggression so that they can better defend themselves. We provided Afghan guerrillas with effective firepower to counter Soviet armies and did so without sending in one American soldier. We could even bomb Serbian gunners besieging Sarajevo and other areas in Bosnia. The message would then be clear: Aggression will not go unpunished.

If we have to do the above by ourselves, so be it. But if we take a strong

lead, most European states will fall in line.

Why get involved at all? Because if we don't, the war could spread, pulling in neighboring states such as Turkey and Greece. Serbia's genocide provides a horrible example to ethnic groups wishing to settle old scores. Extreme nationalists in Russia, Ukraine and elsewhere will be strengthened. The flow of refugees will put even more pressure on the strained social fabric of Germany, France and other West European countries. How does all this enhance our long-term safety?

Furthermore, it won't be too many years before the Serbias, the Irans and the Iraqs of the world have the means to send deadly missiles to our own shores. Wouldn't it be prudent to draw the line on their outlaw behavior now?



Beirut: And now Bosnia?

WHO WATCHES THE WATCHDOG?

INSTITUTIONAL INVESTORS have become very aggressive in holding the feet of major corporate chieftains to the fire.

But this newly found assertiveness leads to a question: Just who determines what the policy of these big blockholders should be? Should it be the beneficiaries? If so, how are they to be consulted? In the public sector, is it elected

political leaders? Are we in danger of falling into what Peter Drucker years ago called pension fund socialism?

For decades big company managements were accused of being self-perpetuating and largely unresponsive to their shareholders. How do we prevent these same phenomena from happening to institutional shareholders?

SOCIALISM STILL LIVES

THE CLINTON ADMINISTRATION is seriously considering putting Washington directly into the student loan business. It wants to cut out the banks and the secondary marketers, principally the Student Loan Marketing Association (Sallie Mae). Clintonites figure Washington could save billions because there would be no need to make a profit.

Currently, Washington insures student loans made by banks. Sallie Mae buys the loans made by private lenders (just as Fannie Mae and Freddie Mac do with home mortgages), thereby providing market liquidity.

Can government really run anything better than the

private sector? Remember the Post Office?

If Washington feels Sallie Mae has it too easy because the loans are insured and Uncle Sam therefore absorbs most of the risk, then it should move in the opposite direction: Let Sallie Mae fend for itself.

The outfit is a so-called government-sponsored corporation, which means that its debt has an implicit guarantee from Uncle Sam. Thus its paper carries interest rates only a smidgen above Treasury equivalents. Congress should explicitly state that there is no longer an implicit guarantee.

HE GAVE A MURDEROUS WAR A NOBLE AIM

Lincoln, the War President—edited by Gabor S. Boritt (Oxford University Press, \$23). A superb collection of fascinating essays on our greatest President. More than just a history of Lincoln—you will learn much that will be helpful in understanding events today. If you read only one chapter, read the one by James M. McPherson, who brilliantly explains the difference between national strategy and military strategy. Lincoln, of course, was a master of both. Alas, most policymakers are not.

Excerpt: To satisfy the large German ethnic constituency in the North, Lincoln felt it necessary to appoint a number of German-American generals. Poring over a list one day in 1862, the President came across the name of Alexander Schimmelfennig. "The very man!" said Lincoln. When Secretary of War Stanton protested that

better-qualified officers were available, the President insisted on Schimmelfennig. "His name," said Lincoln, "will make up for any difference there may be," and he walked away repeating the name Schimmelfennig with a chuckle.

A general's commission was one of the highest patronage plums [Lincoln could give]. From the viewpoint of military strategy this may have been inefficient; but from the viewpoint of national strategy it was essential.

Even in the narrower military sense the political patronage system produced great benefits for the North. Sherman happened to be the brother of an influential

Republican senator from Ohio and Grant happened to be a friend of an influential Republican congressman from Illinois. These fortuitous political connections got them their initial commissions at the start of the war.



Lincoln understood war better than did his generals.

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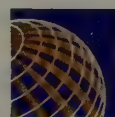
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against the \$26,550** Lexus ES 300 to determine which car's body panels were put together with a higher level of precision.

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What does this

mean in layman's terms?

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Nissan Motor Corporation U.S.A. Smart people always read the fine print. And they always wear their seat belts. *Manufacturer's suggested retail price for 1993 Nissan Altima XE excluding taxes, title, license, destination charges and options. **Manufacturer's suggested retail price for 1992 Lexus ES 300 excluding taxes, title, license, destination charges and options. ***Average gap difference between body panels of 1993 Nissan Altima XE and 1992 Lexus ES 300.

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es and options. ***Based on independent tests conducted by USAC. Body panel tolerances based on average gap consistency. Other claims certified by AMCI for 1993
n Altima XE or SE vs. 1992 competitive vehicles. Slalom comparison based on course completion time. Interior quietness based on decibel level at 55 miles per hour.

Other Comments

And He's Still Doing It

AN ISSUE OF THE *Arkansas Catholic* includes an article on Bill Clinton's wonder years. He received his elementary schooling at St. John's School, a private Catholic academy. In second grade he received straight A's except for a C in deportment because he often blurted out answers before the teacher finished the question.

—DR. EDWARD YARDENI, chief economist, C.J. Lawrence

Pie in the Sky

IN HIS post-election campaign President Clinton has selected four villains to be the anvil on which he hammers counter-revolution.

The first is "the rich," the definition of which has widened to all those not poor. Second is the "special interests." Villain number three is the pharmaceutical industry. The fourth is the one most despised: that ol' debbil deficit.

"Revenue to lower the deficit" is cited by Clinton as the reason for his flip-flop on a middle-class tax cut. The high [deficit] projection justifies tax-hike plans he concealed from the electorate in 1992, and makes it easier to come under in the 1996 campaign.

In [Clinton's] "new directions" ramble [he] raised taxes, raised spending, raised deficits and raised doubts.

—WILLIAM SAFIRE, *New York Times*

* * *

TAXES HAVE NEVER succeeded in promoting economic growth. More of-

ten than not, they have led to greater economic downturns.

The problem is not that the people are taxed too little, the problem is that the Government spends too much.

For more than four decades, the Democratic Party has controlled the House of Representatives. The big-spending liberals need to "sacrifice" a few of the pork-barrel measures they've been slipping past the taxpayers for far too long. Only when the Clinton Administration and Congress summon the will to put the brakes on Federal spending will they get the deficit under control.

—PRESIDENT RONALD REAGAN, *New York Times*

Hold On

WHEN I WAS in China, I heard of a man who had smoked four or five packs of cigarettes a day since his rehabilitation during Deng's reforms. One day he received a letter from his son asking him to stop. Immediately he snuffed out his cigarette, vowing it would be the last. He explained, "Like other men, I fathered a son. Unlike other sons, mine returned to me the gift of life, not just once, but every day. Anything he asks I must grant."

The son had been 7 when the father was suddenly imprisoned in his own office. For years the man remained, not knowing why he was a prisoner, whether he would be freed, what was happening, what had become of those he cherished. Many a long night he

contemplated suicide. Only one certainty stopped him. Every day, at dawn—summer, winter, spring, fall—he could peer through a crack in the boarded-up window and see a tiny vermilion kite in the sky. Sometimes it hovered at eye level; sometimes it soared into the heavens; sometimes it was barely visible. The sight never failed to inspire hope: Someone on the outside waited and cared. So the father held on to life as tightly as he had once taught his young son to hold on to the tether of his kite.

America must always fly a vermilion kite.

—BETTE BAO LORD, president of Freedom House and author, on National Public Radio's *American Gazette*

My pappy told me never to bet my bladder against a brewery or get into an argument with people who buy ink by the barrel.

—LANE KIRKLAND, quoted in *Business Babble*, by David Olive

Any More Questions?

"How DID you go bankrupt?" Bill asked.

"Two ways," Mike said. "Gradually and then suddenly."

—ERNEST HEMINGWAY, *The Sun Also Rises*

Fore!

NOW WE KNOW for sure that Russia has gone capitalist: Moscow recently held its first golf tournament. The sport is still a bit rudimentary there. The country's only course, built on the site of Moscow's former garbage dump, is a mere nine holes. But with 300 regular golfers and hundreds more expected, Russia will soon open a second course in St. Petersburg.

Moscow's Tumba Golf Club has learned quickly from the West. The club's initiation fee is \$1,300—a monstrous sum for the average Russian—plus annual dues of about \$130.

—LUCY HOWARD and NED ZEMAN, *Newsweek*



David K. Simpson



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LEAD FROM STRENGTH.

Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*



HOPE FOR SOUTH AFRICA—AND THE WORLD

WITH APARTHEID ENDED and agreement on the general framework of a timetable leading to open, multiracial elections by April 1994, South Africa at last could be on the road to a nonracial society with equal rights for all citizens. That in turn could assure economic recovery, ushering in an era of extraordinary growth and prosperity.

This optimistic forecast depends on one key factor, as Christopher Forbes and I learned on a trip to South Africa in mid-February. Both Nelson Mandela, leader of the African National Congress (ANC), and F.W. de Klerk, South Africa's president and leader of the National Party, must retain control of their groups against extremist challenges from left and right. It now seems they will.

In November de Klerk called for a fully representative government to be in place by April 1994. Last month a giant step toward that goal was taken when the ANC approved a plan calling for elections by April 1994 to choose a 400-person assembly that would write a new constitution and serve as parliament for five years.

A long interview with Nelson Mandela, who is almost certain to be elected president next year, leads me to these conclusions: Mandela is a most impressive leader, ready to take his place among other world leaders; he seems willing to have all sanctions lifted once a date has been set for open, multiracial elections; and he clearly understands the difficulty in registering 18 million to 20 million people, most of whom have never voted before.

Mandela wants to encourage investment of foreign capital in South Africa and understands that owners of foreign capital need guarantees that they can earn a profit and take that profit home with them.

Mandela opposes (although it is not clear the government supports) any provision that gives any minority party veto power over majority party decisions after the 1994 elections. He also favors the establishment of an American-style bill of rights to protect minorities from tyranny of the majority. He advocates free speech and the right of all to own property and earn profits. He wants all political parties, including his old Zulu enemies in Inkatha, led by Mangosuthu Buthelezi, to participate fully in government.

Mandela supports proportional representation wherein any party obtaining 5% of the vote will be represented in the new parliament and eligible for cabinet posts.

There is already significant agreement on the dreadful state of the economy. Black unemployment is estimated at 45% to 50%, and white unemployment at 10%. Conditions will worsen if there is any more violence or major delay in carrying out last month's agreement. Real GDP fell 5.1% in the fourth quarter of 1992 and 2.1% for the year. A severe drought, weak gold prices and previously stalled negotia-

tions have resulted in a recession lasting over three years. Income per capita is almost 20% lower than in 1981. That is one reason this historic agreement was signed.

Even before the agreement, we felt cautiously optimistic after talking with two other leaders, the first of whom was Pik Botha, the longest-serving foreign minister in the world. He accepts completely the need for a popularly elected, multi-racial government. He believes

there will be little trouble over registration because all but about 2 million adults have "identcards" that could be used to establish a roll of eligible voters. He also understands that extremists can escalate differences to a point where the differences cannot be settled by peaceful negotiations. Knowing that much of his country's future depends on its ability to attract foreign capital, he is working to restore South Africa's relations with the rest of the world.

The other leader we talked with is Derek Keys, a prominent businessman who joined the government a year ago. Keys is known, and occasionally criticized for, his nonconfrontational approach to the government's opponents. He, too, believes that an openly elected government must be in place soon. He is also trying to improve the state of the economy in two ways: by reducing inflation (now under 10%) and by reducing government spending (now more than 21% of the GDP, compared with 13% in 1980).

The agreement between the ANC and the government is, of course, opposed by Inkatha and the left-wing Pan Africanist Congress, but with the government and the ANC working together on a timetable, the future of an apartheid-free South Africa looks better than ever. ■

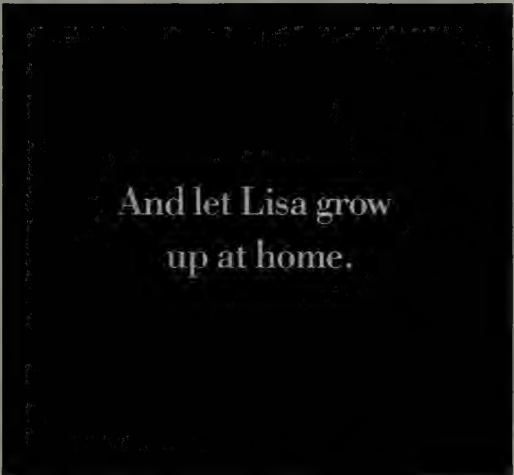


South African leaders: Mandela and Botha.



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Reality closes in

FOR ABOUT A WEEK, President Clinton's proposed Btu tax even got some applause. It seemed fair because it applied across the board, and it might even encourage some energy conservation. And for those who think the only way to cut the deficit is to raise taxes, the Btu tax would definitely do that—\$72 billion worth over five years, the Administration reckons.

But few had any real idea what a tax based on British thermal units was all about. The normally humorless *New York Times* editorialists even tried to turn it into a joke, explaining that Btu did not mean "Buy thermal underwear."

Then the truth began to dawn and the criticism to mount. As proposed, oil, coal, nuclear, natural gas and hydroelectricity would be taxed on the basis of how much heat (measured in Btu) they contain. Politically correct solar, geothermal and wind power would escape tax.

Oil would be hit hardest, with a tax of 60 cents per million Btu, while the other fuels will pay 26 cents per million Btu. The Administration figures that as a result the gasoline tax will climb in three equal phases by 7.5 cents per gallon by July 1996. The American Petroleum Institute says the eventual tax will be nearer 10 cents a gallon. The API also says that the Administration is similarly underestimating the tax's impact on home heating oil.

A more fundamental disagreement concerns the tax's impact on jobs—the key measure being used by the Clintonites of success or failure of their package. Using Washington University's economic model, the National Association of Manufacturers estimates that about 600,000 fewer new jobs would be created than

would have been without the tax.

Most of these lost job opportunities will be in manufacturing, which uses much more energy than any other sector. Energy Department data show that the heaviest energy users are: petroleum refining, fertilizers, cement, paperboard, iron and steel and aluminum. These energy-intensive industries are also big users of oil, gas and coal as raw materials, or they use large amounts of so-called process heat, generated as a by-product during manufacturing. Energy in these forms will be untaxed. But note this: The Btu proposal makes work for accountants and lawyers; firms would have to pay the tax first and file for a refund.

The worst effect of the proposed Btu tax would be on U.S. net exports. For a start, the tax hits higher-cost U.S. crude oil equally with lower-cost imported oil. And domestic oil exploration has already lost 405,000 jobs from a peak in the early 1980s.

While other countries pay very high taxes on gasoline at the pump or on home heating fuels, their industries do not. Because of international trade rules (under GATT), the U.S. would be allowed to apply the Btu tax only to U.S.-made products, not to identical imports. Examples of some results: U.S. aluminum ingot could cost up to 3.5 cents a pound more than today's 56-cent world price. Steel for U.S.-made cars could cost more. (Pity American car buyers, who could end up paying for the Btu tax as well as for direct protection against steel and auto imports.) Petrochemical makers would likely import partly refined feedstocks rather than taxable crude oil.

Congress will mangle this tax to death

THE CLINTON ADMINISTRATION will characterize facts like those above as the work of villainous special interests. But that doesn't mean Congress won't be paying attention to them. The outcome will likely be that this tax—the largest single "contributor" to the Clinton package—will either die or be so modified as to be unrecognizable.

The Texas, Oklahoma and Louisiana delegations will refuse to vote for a tax that discourages domestic drilling (despite Texan Treasury Secretary Bentsen's best persuasion). Do not underestimate the political strength of this gang. It was concern that the Democrats might lose the May 1 special election for Bentsen's Senate seat to a Republican that scared the Administration into keeping the \$12 billion supercollider alive.

The South has allies in the Northeast, where

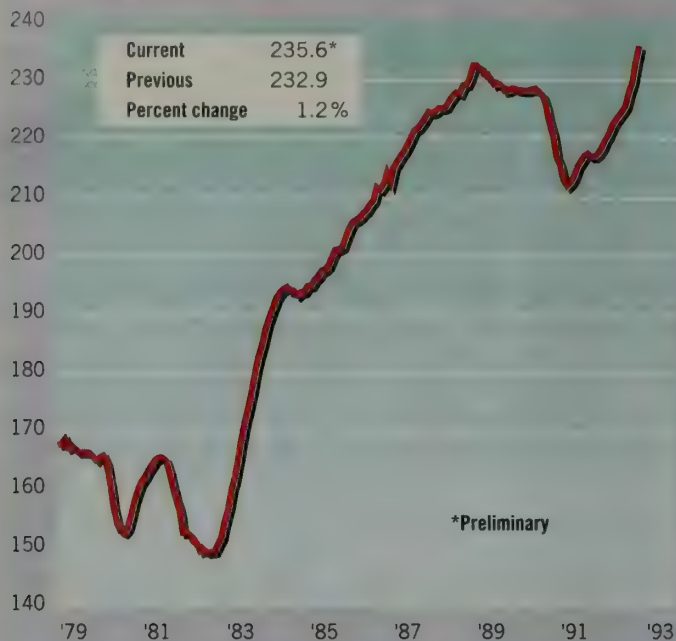
residents pay a bigger share of their income for home heating fuels than other regions. Senator George J. Mitchell (D-Me.) still bears scars from the luxury tax on boats, which led to layoffs in his state. Mitchell learned his lesson and dares not support a tax on heating oil. Neither can Senator Daniel P. Moynihan (D-N.Y.), chairman of the Senate finance committee. He faces reelection in 1994.

At the least, these Northeastern politicians will press to extend forever the two-year exemption proposed by Clinton for the Yankees' heating oil.

And don't forget Senate Appropriations Committee Chairman Robert C. Byrd (D-W.Va.), a.k.a. Mr. Coal. He thinks that West Virginia's coal economy made its "contribution" through the 1990 Clean Air Act.

—TODD G. BUCHHOLZ

The Forbes Index (1967=100)



Let's say you own a bunch of long Treasuries, recently yielding 7%, the lowest return since the Treasury first issued 30-year bonds. Then you read about January's inflation in the Consumer Price Index, which comes to 6% at an annual rate. Should you panic? No, says Ken Goldstein, an economist at the Conference Board. The CPI number was an aberration, he says, and annual price increases will stay in the 3% to 4% range at least through 1994. If he's right, your Treasuries offer a decent, albeit not great, real return of 3% to 4%—but that's before taxes.

Other key rates

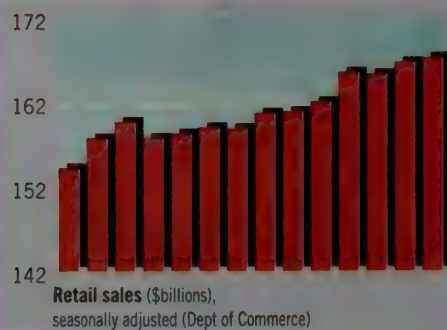
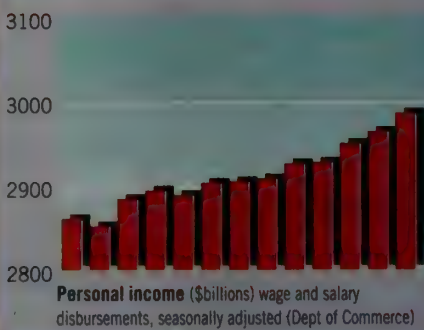
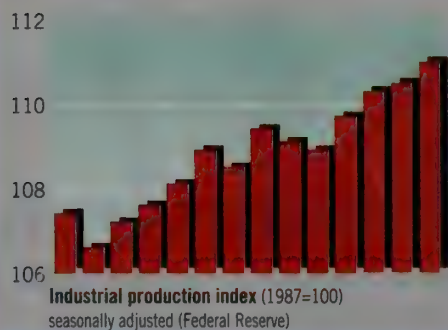
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.0%
Auto sales year to date vs 1992 ¹	Ward's Automotive	5.4%
Index of leading indicators Dec vs Nov	Dept of Commerce	1.9%
Trade balance 12 months ended Dec 1992	Dept of Commerce	-\$83bil
All-commodity producer price index Dec vs Nov ²	Dept of Labor	3.0%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	3.8%
M2 (3-month change)—annualized growth ³	Federal Reserve	1.0%

¹ U.S.-based manufacturers, excludes imports, as of 2/10/93. ² Wholesale goods. ³ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



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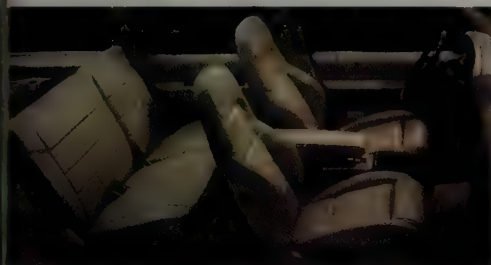


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FIND YOURSELF IN AN EXPLORER.

Watch your wallets.
Mark Hughes is back.

Betcherlife Herbalife

By Dana Wechsler Linden and William Stern



Herbalife's 37-year-old chairman, Mark Hughes
Building a stunning comeback by going global.

FORBES readers may remember blow-dried Mark Hughes and his Herbalife International, Inc. Hughes dropped out of school after ninth grade. He started Herbalife in 1980, when he was just 24. Based in Los Angeles, the company recruited an army of door-to-door salespeople who peddled weight-loss and nutrition products with allegedly exotic herbs and oils.

Within five years Herbalife reported it was grossing \$427 million a year. Not yet 30, Hughes in 1985 was raking in enough to have paid \$7 million for a Bel Air mansion.

Then the music stopped. The Food & Drug Administration and a U.S. Senate subcommittee began investigating Herbalife's products. Law en-

forcement authorities in California charged the company with running an illegal pyramid scheme. After that, Herbalife had trouble recruiting new salespeople. By 1991 Herbalife's U.S. sales had withered to \$42 million.

But you can't keep a slick character like Hughes down. Herbalife is in the midst of a fantastic recovery. The company just announced 1992 sales of \$405 million and profits of \$20 million (74 cents a share). Its stock, which traded at a bit under \$1 a share in mid-1991, hit 14 3/8 in December 1992. It has since backed off to 10 and change, but even so Hughes' 74% of the company has a market value of close to \$200 million.

Mark Hughes is 37.

Herbalife still sells tablets and liquids that are supposed to help people lose weight and feel better. But Herbalife isn't really about products. It's about selling.

Herbalife is a big success story in pyramid schemes. Pyramid refers to the sales organization, which is multi-layered, with each layer recruiting a larger number of salespeople, who in turn recruit another level.

The arithmetic underlying these schemes gets pretty wild. A simple pyramid in which each salesman recruits three new salesmen grows into an army of more than 2,000 after just six layers of salesmen have been recruited. Herbalife has over 250,000 "distributors" peddling its products. Marvels California Deputy Attorney General Albert Sheldon, who prosecuted the company in 1985: "If a system has everybody duplicating themselves six times [within a month], it's something like 13 months before you use up every man, woman and child in the world."

On a per-salesman basis, Herbalife's sales are pitiful: something like \$1,500 a year each. But for the folks on top, the rewards are staggering.

Pyramid schemes come and go, but Mark Hughes' Herbalife is remarkable for the strength of its comeback. How did he do it? Simple. He did what most other smart business people are doing these days. He went global. Last year nearly 80% of Herbalife's sales were made overseas.

There is only one problem with the new strategy: It brings only temporary success. Just as Hughes' sleazy tactics tripped him up in the U.S., so do they eventually in his newer markets. Look at the bottom chart opposite. It shows that in several of the countries where Herbalife operates the company's sales have shot up, only to collapse soon after.

In the U.K., for example, Herbalife's sales mushroomed from \$9 million in 1985 to \$22 million in 1987—and then plunged back to \$6 million in 1991, the latest year for which we have figures. Mexico and New Zealand show similar patterns.

Eventually Hughes will run out of suckers, among consumers and sales people alike.

Lately Herbalife's Spanish pyramid has been expanding like mad—sales (i

Spain are up from \$6 million in 1989 to over \$70 million in 1991. But authorities in Madrid are now investigating Herbalife for questionable sales practices: Under Spain's laws, selling food products door-to-door or person-to-person is illegal. Herbalife lawyers insist the company has done nothing wrong. Madrid officials tell *FORBES* that Herbalife sales are beginning to ebb in their area.

Back home, Herbalife's U.S. sales rebounded last year, to \$85 million. But the company is again moving dangerously close to the line that separates legal multilevel sales organizations like Amway Corp. from illegal pyramid scams.

Multilevel marketing organizations are legal in most states as long as the sales force is compensated based on selling products to customers not affiliated with the organization. In other words, the test of legality is: Do real consumers end up buying the stuff or is it simply shoved down the throats of sales recruits?

Consider the company's hugely successful marketing program introduced last year, called Wealth Building. Under this plan, new recruits shelled out \$500 for Herbalife products, which became the recruits' inventory. In return, they were promoted to a higher pyramid level, entitling them to a 50% discount on Herbalife purchases. In other words, they paid \$500 for products worth \$1,000 at retail. Other entry-level distributors, who didn't shell out the \$500, got a discount of only 25%.

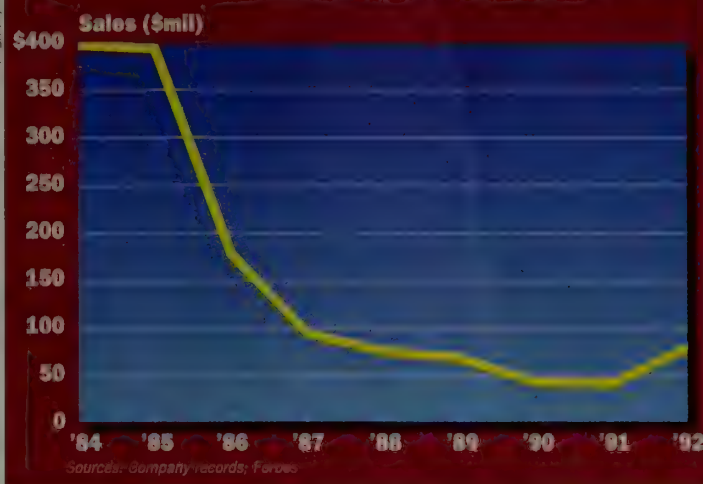
The Wealth Building program was phased out recently. But Herbalife's new recruits can still become "supervisors" within one month—and get the 50% discount—by buying \$2,000 of Herbalife's products.

Remember the arithmetic of pyramids: The bigger the organization, the more trouble new recruits will have finding new customers to buy their goods, and the higher their chances are of being stuck with the stuff. With over 250,000 salespeople in the field, Herbalife is already at the point in some markets where the bushes have been pretty well beaten for prospective consumers.

The so-called Wealth Building program—in which recruits bought more to jump up on the pyramid—

Robert Mansfield/Forbes

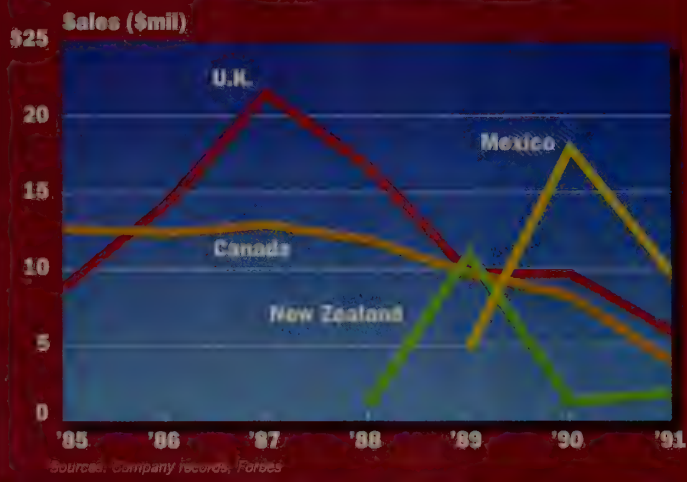
The long slide reverses in the U.S.



Terrible publicity in the mid-Eighties almost killed Herbalife. But U.S. sales have turned up dramatically, thanks to an aggressive new marketing program.

Overseas, Herbalife's sales have shown a predictable trend: Sales grow rapidly until the market becomes saturated—or the publicity turns sour.

A pattern of surges and collapses



was run by Lawrence Thompson and Larry Stephen Huff, colorful characters both. Until recently they were executive vice president of sales and a distributor, respectively, at Herbalife. Huff was one of the people behind Holiday Magic, Inc., a multilevel direct sales cosmetics marketer that legal experts sometimes refer to as the "father" of all pyramid schemes. In 1973 the Securities & Exchange Commission charged it with defrauding its distributors of \$250 million.

A few years later Huff was involved in another now defunct multilevel marketing company called Golden Youth. It was in part at Golden Youth that young Mark Hughes learned about building pyramids.

In 1987 Huff pleaded guilty to conspiracy to commit mail fraud in connection with an illegal Ponzi scheme called Culture Farms, Inc. He was sentenced to two years in federal

prison. Huff joined Herbalife after his release.

Lawrence Thompson was Huff's sidekick for many years. The two worked together at Golden Youth and, before that, at Bestline Products. In 1973 Bestline was ordered to pay a \$1.5 million judgment for violating California laws restricting pyramid schemes. Now 48, Thompson started working with Hughes at Herbalife in 1980. Some of Huff's top people from past schemes are now high-ranking distributors for Herbalife.

Is Mark Hughes bothered by his distributor Huff's scrapes with the law? Hughes refused to comment for the record.

Given these histories, it is no surprise that Herbalife walks close to the legal line. One Herbalife distributor recently told an international conference call hookup to hundreds of potential salespeople how he lost 19

pounds in 22 days and got rid of his eczema by taking Herbalife tablets. Distributors on other conference calls have told how Herbalife helped cure diabetes, varicose veins and lupus.

"That is really, really serious," says Herschel Elkins, senior assistant attorney general for California. "If we'd heard that, we'd have brought action [against Herbalife]."

One of Herbalife's hottest products these days is a tablet called Thermojetics, which supposedly helps "maintain a proper energy balance to reduce excess body fat," whatever that means. Cost per month: \$29.95.

Buyer beware: Thermojetics' leading ingredient is a Chinese herb called *Ma Huang* that, according to an internal bulletin of the Food & Drug Administration, contains the potent drug ephedrine, which should be used only on the advice of a physician.

Herbalife claims that its product contains such small amounts of *Ma Huang* and other herbs that they can't cause any harm. Warns Dr. John Renner, a family physician, consumer health advocate and longtime critic of Herbalife: "These are secret formulas. It's foolish to take pharmacologically active substances without knowing the amounts. A little bit is going to do nothing. A lot will do you harm."

The folks running Herbalife seem aware that they are heading for trouble. About six months ago Huff severed his ties to Herbalife. He was followed in January by Thompson.

But these departures probably won't be enough to head off trouble. Donald Griffin of Baton Rouge remembers what happened in 1985, when a U.S. Senate subcommittee held hearings into Herbalife's products. Griffin was 30 at the time and pulling in big money as an Herbalife distributor. "Then the Senate subcommittee hearings got out, and people stopped taking the product," he recalls. "[Distributors] had \$20,000 of it in their living rooms. [My] income went from \$15,000 a month to zero, just like that."

Mark Hughes is unlikely to suffer such privation. Last year FORBES estimates he drew close to \$10 million in cash compensation and dividends. He also traded up to a Beverly Hills estate once owned by actor George Hamilton and valued at \$20 million.

If Anheuser-Busch heir Jim Orthwein moves his football team out of New England, he might hurt the family company. If he doesn't, he could hurt himself.

Orthwein's dilemma

By Norm Alster

ARE NEW ENGLANDERS about to lose their football team, the New England Patriots, to St. Louis? Will they blame Anheuser-Busch and boycott the St. Louis-based brewer's products? Both are distinct possibilities in a professional sports drama now unfolding in Missouri and Massachusetts.

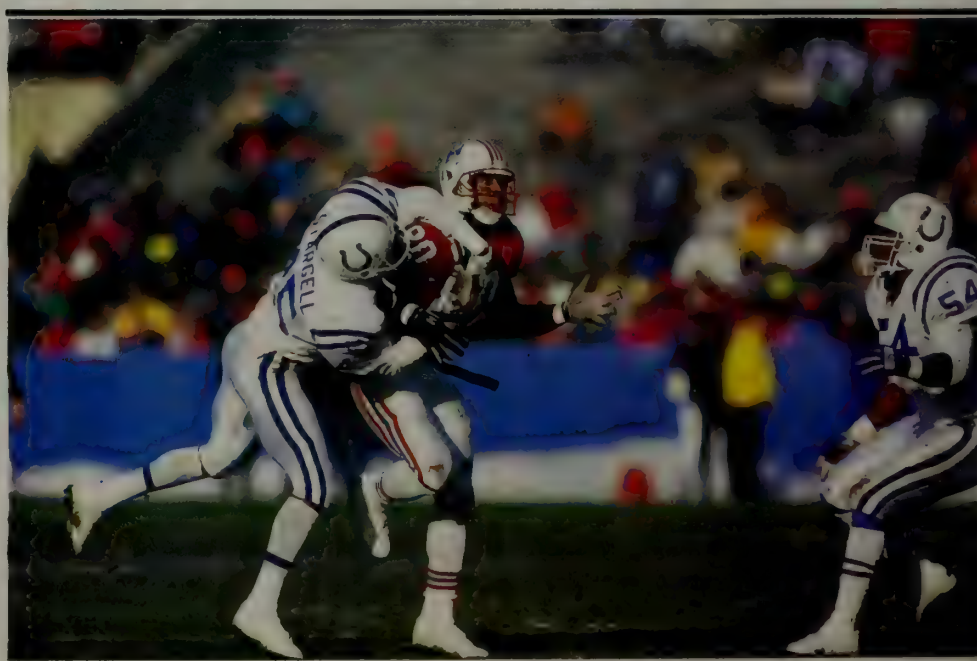
The central character is 69-year-old James Busch Orthwein. Orthwein owns the Patriots. But he lives in St. Louis; his roots there are thick and deep. A first cousin of Anheuser-Busch Chairman August Busch III, Orthwein is a director of the firm and owner of about \$70 million worth of its stock. For years he led the hounds on fox hunts at Bridlespur Hunt Club, west of St. Louis, and he still enjoys trout-fishing in the nearby

Ozark Mountains.

Orthwein heads up a group determined to bring a National Football League franchise to St. Louis. The NFL will soon announce expansion into two new cities: St. Louis is the odds-on favorite to be one, and Orthwein and his group would probably get the franchise.

So here's Orthwein's dilemma. Should he sell the moneylosing Patriots and reinvest in an expansion team in St. Louis? Or should he simply move the Patriots to St. Louis?

At first glance, the choice is a no-brainer. If he sells the Patriots, Orthwein would like to recoup at least the reported \$110 million he paid for the team a year ago, but many doubt he could find buyers at that price. Mean-



The New England Patriots at work at Foxboro Stadium

They've got to fill some empty seats to keep the franchise in New England.



New England Patriots owner Jim Orthwein at home in St. Louis

"I very frankly view football as a consumer product."

while, the cost of an expansion franchise for St. Louis could run to \$150 million.

Conclusion: Move the Patriots to St. Louis. Predicts the Patriots' former general manager, Patrick Sullivan, whose father, Bill Sullivan, once owned the team: "The Patriots would be worth significantly more in St. Louis than they are in Boston. I think the team is definitely going to move out of Boston."

But dig deeper, and Orthwein's decision isn't so simple after all.

Orthwein bought the Patriots last year from Victor Kiam, the Remington shaver man, and Kiam's minority partner, Fran Murray. Kiam had made a big mistake: He had allowed ownership of the team to become separated from ownership of Foxboro Stadium south of Boston, where the team plays. Today Orthwein owns the team, but local entrepreneur Robert Kraft co-owns the stadium with Steve Karp, a real estate developer. They are not about to roll over and let Orthwein break his lease. Kraft says the stadium was bought for \$25 million and it is estimated that they now get some \$5

million a year through 12% of gate receipts, along with all parking, concession and luxury suite income.

The Patriots' lease runs to 2002. What if Orthwein tries to pack up and leave? "We'll go to court and get an injunction," warns Kraft. "We think we can stop him." By Kraft's reckoning, they'd be entitled to roughly \$50 million from Orthwein, plus damages. Kraft says he'll talk about giving Orthwein a more generous lease, but only if Orthwein will agree to extend the lease for at least another ten years.

What to do? Orthwein contends that the Patriots have the worst stadium lease in the NFL, and he knows that even the hope of a new facility with a better lease would significantly raise the team's market value. So Orthwein favors public construction of a combined football and convention facility in or near Boston. In this he has leverage: In Missouri, politicians and business interests united around a \$260 million plan, financed by a public bond offering, to build a stadium-convention complex.

But New England's football fans have some leverage, too. Every fan in

the region knows that Orthwein is a Busch and a director of Anheuser-Busch. Already, edgy New Englanders are talking of a boycott of Budweiser and other Anheuser-Busch products if the Pats decamp. That would hurt. According to Frank Walters, director of research at M. Shanken Communications, an alcoholic-beverage trade publisher, Anheuser-Busch claims 56% of the \$1.6 billion New England beer market.

Orthwein insists that the brewery has no say in what he does. But he allows that cousin August III, Anheuser-Busch chairman, has expressed to Orthwein his hope that Orthwein won't move the team.

Orthwein spent 37 years in the advertising business at D'Arcy MacManus & Masius. At D'Arcy, he helped create the memorable "For all you do/This Bud's for you" campaign, one of the most successful ad campaigns ever. In short, Orthwein knows something about developing consumer brand names and is trying to do that for the Patriots. "I very frankly view football as a consumer product," he says.

As he lobbies for a new stadium, Orthwein plans first to improve his product, then its marketing. A step in both directions was the hiring of Bill Parcells, a high-profile coach who won two Super Bowls with the New York Giants and is well known to football fans in New England, where Giants games have been broadcast for many years. Patriots season ticket sales exploded immediately after Parcells was hired.

Also on Orthwein's drawing board: plans to redesign the team's logo and uniforms. This should benefit sales of Patriots-licensed sports gear, currently among the worst in the NFL.

What will Orthwein do with the Patriots? Quite understandably, he's playing his cards close to his vest. "I intend to leave the Patriots in much better shape than I found them in and, hopefully, in New England with proper financially strong local ownership," he says.

Clearly, Orthwein would rather keep the Patriots in New England. But if he can't make the team sufficiently attractive to prospective buyers, he may have little choice but to take the Pats west.

Foreigners have been big buyers of U.S. coal properties. What do the buyers know that the sellers don't?

Buy low

By Marcia Berss



Hanson Industries Chief Executive David Clarke
"People are not going to shut off their electric lights."

IN JANUARY the British conglomerate Hanson Plc. swapped gold mines in California and Nevada that it valued at about \$150 million for the coal operations of Santa Fe Pacific. Hanson already owns Peabody Holding, whose revenues of \$1.8 billion make it the U.S.' largest producer of coal.

What's with the Brits and coal? In February Britain's RTZ Corp., the world's biggest mining group, agreed to pay PacifiCorp \$470 million for its Oregon-based Nerco operation. RTZ

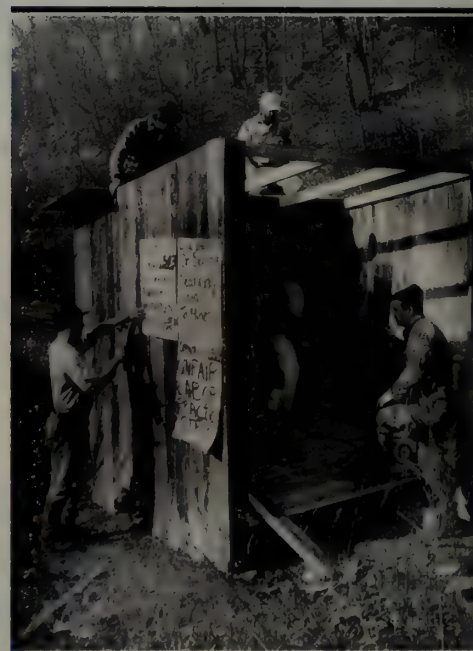
will sell off Nerco's oil and natural gas business and retain its coal mines, seventh-largest in the U.S. A few days later RTZ bought Sun Co.'s big Wyoming coal mine.

The Germans seem to like American coal, too. In 1991 the world's second-largest coal miner, Germany's Rheinbraun AG, bought from Du Pont half the number two U.S. coal miner, Consolidation Coal, which they now operate jointly.

But Hanson is by far the most

aggressive buyer of coal properties. With many of its acquisitions, Hanson has acted as an asset-stripper, dismantling purchases for what the parts will bring. Not so, apparently, in coal. David Clarke, head of Hanson's U.S. unit, says Hanson's interest in U.S. coal is strictly long term. Coal, he tells FORBES, is a basic consumer good, while gold clearly is not. Moreover, while gold mines are usually mined out after 12 years, Peabody has over 100 years of coal reserves. "That makes me feel comfortable," he says.

Why are the Europeans stepping in where Americans seem to be getting out? Hanson's Clarke points out that the major sellers have been oil companies such as Mobil, Shell and Sun. Oil companies, he sniffs, "are not known for their efficient method of operating." He says the oil boys got into coal at the top in the late 1970s, and



United Mine Workers on strike
Will they ease restrictive work rules?

are getting out close to the bottom.

Since Hanson bought Peabody in 1990, it has shifted much of its 90-million-tons U.S. production to low-sulfur from high-sulfur coal. Electric utilities, its biggest clients, are increasingly converting to low-sulfur coal to meet 1995 requirements of the Clean Air Act Amendments.

Hanson has squeezed \$25 million out of Peabody's overhead, boosting Peabody's operating margins up from under 14% in 1989, to 15.5% last year.

In 1992 Peabody had pre-interest, pretax earnings of \$280 million, giving Hanson a 16% return on its \$1.75 billion investment.

Perhaps one of the things that bothered U.S. oil companies on owning coal was the troubled labor history of the coal industry. Indeed, Peabody Holding subsidiaries are being struck by the United Mine Workers. Peabody is the U.S.' most unionized producer, and east of the Mississippi River operates only union mines. Elsewhere, UMW tactics have already reduced union-mined coal to only 35% of the U.S.' total, from 50% in 1980 and 65% in 1970.

Most major eastern coal producers operate both union and nonunion mines, a practice called double-breasting. Because of their more flexible work rules, nonunion mines can be nearly twice as productive as the average union mine in the East. Peabody decided to go along with the UMW and operate only union mines, and Irl Engelhardt, president of Peabody Holding, says the strike shows double-breasting would likely have been a better strategy.

But Hanson is taking the strike in stride. Supervisors and managers are shipping enough coal to meet contracts. Besides which, the utilities have high, 90-day stockpiles.

Hanson is also taking quite calmly the new energy taxes proposed as part of the Clinton tax increase. Its executives figure a tax based on British thermal units will not dent coal's cost advantage over rival natural gas. (Coal costs \$1.45 per million Btu, versus \$2.20 per million Btu for gas.) Peabody is further protected because long-term contracts allow it to pass on any tax increase to the utilities.

Hanson's enthusiasm for coal extends abroad. Last year it bought an option on a low-sulfur mine in Venezuela, with the aim of selling coal to Europe. Late last year it thought it had a deal to buy Australian coal mines—for Asian export—from Britain's Costain, which instead sold the mines to a French firm. Hanson is suing.

Hanson is even considering buying Britain's troubled nationalized coal company, when it is privatized. "Peabody has a lot of expertise in underground mining that could be helpful to British Coal," offers Clarke.

In the face of disappointing showings, BN's Jerry Grinstein has held on to his job. How much longer?

Sweet-talking the board

By Phyllis Berman and Roula Khalaf

ON FEB. 2, selected maintenance men, secretaries and trainmen from all over Burlington Northern's 25,000 miles of railroad track were flown to Fort Worth, there to dine in splendor with Chief Executive Gerald Grinstein, 60. The gregarious Grinstein cracked jokes and exchanged one-liners all evening. Next morning he prodded his public relations executive with evident concern: "How do you think it went last night?"

The exercise was a hit. Jerry Grinstein does this sort of thing terribly well. The man who runs the nation's longest rail system is regarded by most of his employees as an understanding boss and a decent fellow.

This is a useful image for a boss to have, but it isn't enough. The Burlington Northern railroad hasn't been doing well. On revenues of \$4.6 billion the railroad had the worst operating ratio among publicly traded companies in the business last year. The operating ratio—operating expenses as a percentage of revenues—was 85.2% in 1988, the year before Grin-

stein took over. In 1992 it was 87%—meaning that only 13% of revenues were left over for interest on debt, income taxes and profits. Archrival Union Pacific, meanwhile, has improved its operating ratio from 80.3% to 79% over the same period. Out of every revenue dollar, UP brings down to operating income 60% more than BN does.

BN has problems with both the numerator and the denominator of the ratio. The main reason costs are so high? Grinstein, ever the kindly boss, hasn't been able to tame the unions. The rest of the industry now runs trains with two- or three-man crews, but so far Grinstein has failed to get labor concessions to reduce crew size on one-third of his system. This alone costs Burlington close to \$100 million a year.

Grinstein landed in this position because, unlike most other railroads, he didn't file to have the dispute arbitrated before a presidential board until the beginning of 1992. Why? Grinstein had hammered out an



Burlington Northern coal train
Competition threatens in the Powder River Basin.

agreement to reduce crew size on the southern routes, something he mistakenly thought he could impose on the northern lines.

Another cost factor: Since 1989 personal injury costs have almost doubled, to \$255 million in 1992.

As for revenues, they've been flat since 1988. BN's coal traffic has been under price pressure. There was a time, not so many years ago, when BN owned the coal business emanating from the Powder River Basin in Wyoming. No longer. Today UP, which can offer shippers lower rates, has won 30% of that business. Holding the remnant is important to BN since it accounts for a third of its revenues and probably more than 50% of profits.

Some of the coal traffic is up for contract renewal starting in 1994. BN will almost certainly lose more of its remaining 70% unless it can match UP's rates. This will be difficult so long as its costs are so much higher—as evidenced by its high operating ratio.

What about other businesses? There is, for example, intermodal. That is, moving goods in containers or trailers by the cheapest combination of methods available—rail, water or road. The railroad's commitment to that business has been the subject of internal bickering, and Grinstein has not made his position clear. Since 1989 intermodal has grown only 9.5%, to \$711 million.

Besides being a heck of a public relations man, what are Jerry Grinstein's qualifications to run a railroad? Minimal. He was first recruited in 1985, to the board of Burlington Northern, then the parent company of the railroad. At the time he was with Western Airlines.

When he took over the railroad in 1989, Grinstein inherited a difficult situation. In the Eighties parent Burlington Northern was diversifying away from rail and into energy. To do so, it milked the railroad's cash, holding capital expenditures to an average of \$340 million annually when the

railroad probably should have been spending almost twice that to keep up with rapidly changing technology. In 1988, when the parent spun off its energy business to shareholders, it left the railroad saddled with \$2.8 billion in debt, more than three times equity. Grinstein has reduced that debt to \$1.5 billion and raised new equity.

But he hasn't done much with the railroad. In early 1991 the BN board protested the lack of a turnaround and asked Grinstein to bring in Jack Chain to work under longtime railroader

railroad would turn around. It would have between \$750 million and \$800 million in operating income and an operating ratio of just 80%.

Grinstein points proudly to 1992's fourth quarter. It was surprisingly strong, the operating ratio dropping to 83.4%. Since the announcement BN stock jumped 12%, to a recent 47.

"Burlington Northern is on its way to being the number one railroad again," Grinstein insists. He points to BN's spanking-new computerized control center at Fort Worth headquarters, which he claims will provide his customers with "precision execution" that is superior to Union Pacific's. Grinstein asserts that within six months he expects to settle all remaining labor disputes.

Francis will probably succeed in getting Burlington's costs down, delivering on his promise and boosting the railroad's near-term performance. But the cost-cutting may come at the expense of service and ultimately cut into the railroad's revenues.

The cost-cutting bears watching. BN has sometimes seemed to play games with its depreciation. Railroads are allowed to change the life over which they depreciate their assets. Burlington has done it more aggressively than others,

resulting in major swings in its depreciation expense. For the first nine months of 1992 BN reduced its depreciation expense by some \$19 million. During the fourth quarter it also cut travel expenses. The last time the company did that, the expenses crept back in the next quarter.

Grinstein had two main critics on the board—his predecessor at the railroad, Darius Gaskins, and America First Cos. Chairman Michael Yanney. Grinstein recently successfully maneuvered Gaskins off the board. The betting is Yanney is next.

But Grinstein's job is not yet safe. Many prominent corporate heads have rolled already in the Nineties. How much more time does Jerry Grinstein have?



Burlington Northern's Gerald Grinstein

He's a jolly good fellow, but that's not enough.

William Greenwood, then Grinstein's number two man. Chain, a former high-ranking officer from the Strategic Air Command, was to strengthen management, but there still was no turnaround. Then last summer, without informing the board, Grinstein pushed both Chain and Greenwood aside. Chain now oversees safety. Greenwood heads marketing. The board apparently accepted Grinstein's argument that the poor performance was the fault of Greenwood and Chain. Grinstein pacified the board in August by naming William Francis, who had many years of railroad experience, to run day-to-day operations.

What now? Francis promised the board that by the end of 1993 the

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Ford Motor Co. is again betting big money that it can build the same car around the world, and make money on it.

Will the third time be the charm?

By Steve Kichen

ONCE AGAIN Ford Motor Co. is betting it will save a fortune in development and production costs by building the same car in the U.S. and in Europe. In Europe the car, code-named CDW27, is called the Mondeo; produced in Belgium, it will go on sale this month. Next year the American version, as yet unnamed, will roll from Ford's assembly line in Kansas City.

The idea seems to make sense—the Japanese sell some of the same models around the world—but until now Ford hasn't been able to make the "world car" idea work.

Ford first tried the world car concept back in 1960. But its innovative little front-wheel-drive economy car died when Ford realized it would cost more to build than some of its bigger cars. Ford canceled the American version just 60 days before production.

Ford's second world car attempt was the 1981 Escort. But in the end the American and European versions of the Escort shared just two insignificant parts. The problem: Ford's European and American engineering groups refused to budge on their demands.

The Mondeo/CDW27 is Ford's most expensive and ambitious new car project ever, Taurus included. Harold (Red) Poling, Ford's chairman, says the total price tag—European and American combined—to get the car into production is \$5.5 billion.

Ford is pulling out all stops to make the Mondeo a success. Four styling studios—in Italy, California, Cologne and Dearborn—worked on the project, which got its go-ahead seven years ago. More preproduction pro-



totypes were built than ever before, even for Taurus. The aim is to sell 400,000 cars a year in Europe; this would be about a fourth of Ford Europe's total car sales, making the Mondeo a key product overseas. The Kansas City plant has the capacity to build another 250,000 of the cars.

Poling winces when FORBES tells him that some Detroiters are calling the CDW27 "the program from hell." Why the negativism? Part of the huge cost might be technology catch-up. Says Maryann Keller, the well-plugged-in auto analyst at Furman Selz: "Ford is now confronting its lack of investment of the past decade, which seems rather extraordinary considering how profitable it was." So there are two new engines for the Mondeo/CDW27, and a new automatic transmission.

The big question about Mondeo is whether Ford can make money on a midsize car with a \$5.5 billion investment to recoup. GM's Saturn project is a sales success but has trouble making money because of the billions spent on its development. Chrysler, on the other hand, stretched \$1.3 billion to produce several versions of its award-

winning LH sedans. Chrysler is also preparing a Mondeo-size car code-named JA, coming out about a year after the Ford. Chrysler people say the JA car will cost more like \$1 billion or so to develop.

In Europe the Mondeo has been well received by the automotive press. The car is said to handle, perform and ride far better than the Ford Tempo and Mercury Topaz that it was supposed to replace in the States. But the CDW27 is expected to be priced at roughly \$15,000, alongside the bottom of the larger Taurus line and several thousand dollars higher than Tempo-Topaz. Because of CDW27's higher price tag, Ford may decide to keep building the older cars for fleet customers.

When Ford introduced the Taurus back in 1985, it was a bet-the-ranch proposition. The Mondeo/CDW27 stakes aren't that high. Poling tells FORBES that the car can be profitable—especially on the European side—despite the \$5.5 billion investment. But if the Mondeo/CDW27 isn't a smashing success, Poling admits that Ford may well abandon the world car concept.

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There is a cheap and effective way for the U.S. to intervene in the Balkan civil war without putting our warplanes and our soldiers at risk.

The truth weapon

BY MICHAEL NOVAK



Michael Novak holds the George Frederick Jewett chair in religion and public policy at the American Enterprise Institute in Washington, D.C. His book *The Spirit of Democratic Capitalism* has been widely translated around the world. He also serves on the Board of International Broadcasting, which governs Radio Free Europe.

MOST OF MY FRIENDS who used to be doves have now become hawks. Some who never before in 40 years have seen a U.S. military operation that they approved of (not even Desert Storm) want to send U.S. aircraft to bomb the Serbian military—or at least, like President Clinton, promise U.S. ground forces some months from now to keep the peace.

But there is also a better way, infinitely cheaper in blood and treasure, close at hand, ready to use and in the long run more effective: Give Radio Free Europe the resources to broadcast into the former Yugoslavia.

Today the Serbian government has a near total monopoly over Serbian airwaves. Not since Nazism has there been such propaganda power for aggressive nationalism and ethnic hatred. Day and night, "patriotism" is harnessed with fevered reports of anti-Serbian atrocities (some false, some true). Serbia is pictured as a tiny, poor, oppressed victim, battered by international prejudice. Virtually all

the information available to the people of Serbia is doctored.

The most horrifying fact is that so many Serbs accept the government's version of events. The most awful atrocities are daily being rationalized in seeming good faith. Appeals to patriotism swamp public, and even private, reason.

The powerful radio towers of Radio Free Europe stand ready to counter this hysteria. Transmission time is now available. Signals from these towers could reach the Serbian public loud and clear—as they have for four decades reached neighboring peoples in Hungary, Romania, Bulgaria, the Czech lands and Slovakia. Native speakers of the several languages of the Balkan countries are available, as are trained journalists who are devoted democrats and truth-tellers. Within 90 days, affirms Gene Pell, the president of Radio Free Europe, RFE could be up and running, beaming accurate and nonpartisan information and ideas into the former Yugoslavia.

It is the great strength of RFE that it is not the Voice of America or the British Broadcasting Corp. or Deutsche Welle (the German overseas service). These are all great broadcasting organizations. But they have the disadvantage that they speak for foreign governments and peoples; that is their nature, that is their stated intention. By contrast, Radio Free Europe is broadcasting of, by and for the peoples to which its programs are beamed. RFE's broadcasts to Serbia would be by Serbs. Its information would be known to be utterly reliable.

Boris Yeltsin has given RFE lavish credit for its reliable reporting under fire during the failed communist coup of August 1991, as well as during the long years of the Cold War. Ministers

of the government of Estonia proposed RFE for the Nobel Peace Prize the year before, for its role in making the liberations of 1989 possible. Many governments, with the coming of democracy, have given RFE access to local AM broadcasting facilities so that through its objective and non-partisan reporting they might teach new habits of freedom and community to peoples still trying to overcome many years of communist habits.

Throughout Eastern Europe, the journalists of RFE are welcomed at local appearances as national heroes. Why not unleash their colleagues in the former Yugoslavia? The Serbs, Croats, Bosnians and others—Christian, Orthodox, Muslims, Jews—are also moved by, in Lincoln's great phrase, the better angels of their nature. Radio can reach these inner angels with the power of fact, a larger outlook, and an appeal to our common humanity in the light of the Universal Declaration of Human Rights.

The cost of putting RFE on the air in the Balkans and underwriting its annual budget would be cheaper than the loss of even a single warplane by accident or hostile fire. RFE aims at minds, and surely minds are closer to the center of the evils in the Balkans today than any target that even the laser weapons of Stealth fighters can hit.

The most stupid piece of legislation proposed before the U.S. Congress in several decades is newly elected Senator Russell Feingold's (D-Wis.) bill to disband RFE/RL over a three-year period. Congress should reject Feingold's bill out of hand, and then unsheath the gleaming weapon that best penetrates the defenses of dictatorship—the truth. This is a chance to aim directly at the mind of Serbia—and to implode the falsehoods.

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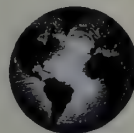
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Checkpoint Systems' founder Ted Wolf decided he'd made a big mistake in choosing his successor. But firing him has not solved Wolf's problems.

"Gerry chose to be a very nice human being"

By Seth Lubove



Checkpoint Systems' A.E. (Ted) Wolf and security tags

"I don't mind if people think I'm nuts."

"THERE IS A VALUE in people thinking you're totally insane," says A.E. (Ted) Wolf. "I don't mind if people think I'm nuts. It creates terror."

Ted Wolf is chairman, chief executive and 7% owner of Checkpoint Systems, Inc., a \$72-million-a-year (sales) maker of those ubiquitous antishopping tags that adorn everything from baseball mitts to neckties to newborn babies. Wolf, 63, started the business in 1969, as a sideline to a packaging company he was running. But he saw more potential in Checkpoint than in packaging, and in 1977, when sales reached \$3 million, he spun off Checkpoint to shareholders.

By 1986 Checkpoint was tied for number two in the security tag business with Knogo Corp. but well behind Sensormatic Electronics Corp. (1992 sales, \$310 million). Wolf's stock at the time was worth around \$6 million, and he decided to anoint his successor: Gerald Klein, a former accountant who was Checkpoint's senior vice president of operations. Their deal, according to Klein: Wolf would retire within two years.

But it never happened. Instead, in July 1991, Wolf sacked Klein.

Irrational behavior? Wolf doesn't think so. He explains: "I said, 'Gerry, my [Checkpoint] shares are worth what they were four years ago. I don't like that. The only time we get mentioned is in reports on Sensormatic.'"

"People liked us because we weren't a threat," Wolf continues. "Even Sensormatic said they liked us. Gerry chose to be a very nice human being. If they say Ted [Wolf]'s a nice guy, that is not necessarily a part of being a successful businessman."

Retorts Klein: "When I left I had mixed feelings. A third of me was sad, a third was angry, and a third said, 'At least I don't have to put up with his [Wolf's] crap anymore.'"

After getting rid of Klein, Wolf threw himself back into making Checkpoint a tough competitor. He increased Checkpoint's sales force by 50%, acquired distributors and brought out new security products. Last year Checkpoint's earnings increased eightfold, to \$4.4 million, 45 cents a share, on revenues of \$72 million. That was still well below the record earnings achieved by Klein in 1986 and 1990 (65 cents and 72 cents

Left: Shogors/Woodfin Camp

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a share), but Wall Street liked the momentum. Checkpoint's stock price climbed from 6¾ around the time that Klein was booted out to a high of almost 20 in late January.

Now, however, Wolf is facing the biggest challenge of his career, as manufacturers and retailers decide what kind of antitheft tag technology they'll be using in the years ahead.

The buzzword in the antitheft security tag industry is "source tagging," meaning manufacturers will apply antitheft tags at the factory. That saves time and expense for retail-

security guards.

Sensormatic uses an acousto-magnetic technology in which metal in the tags vibrate and set off the alarm unless the tag is deactivated.

The recorded music industry may be among the first to decide which antishoplifting technology will be adopted by many retailers. With 500 million CDs being sold annually, plus hundreds of millions of audio and video tapes—and lots of nimble-fingered teenagers eager to pocket the latest tape or CD—the music industry is among the largest users of antitheft

a full-page ad in *Billboard* magazine last January. The ad asserted that magnetic deactivation systems, like Sensormatic's, can ruin music. Retailers say there is no evidence for this claim; Sensormatic is now suing Checkpoint for false advertising and demanding \$35 million in damages.

Wolf's response? "I'm glad they don't like it [the ad]," he says. "I'd be upset if they did. There's a lot riding on this. When you're trying to achieve leadership, you have to go after the number one guy."

But it will take more than an advertising campaign to convince retailers to adopt Checkpoint's technology. Checkpoint's tags are less expensive than Sensormatic's, but they are notorious for setting off false alarms—and many retailers would rather suffer some shrinkage than fight an endless river of wrongful arrest lawsuits.

By contrast, Sensormatic's detection system needs two unique signals—acoustic and magnetic—to set it off, making it nearly free of false alarms. Sensormatic's chief executive, Ronald Assaf, tells *FORBES* that he has been approached by one large drug-store chain that has already paid out over \$1 million in false arrest claims stemming from false alarms triggered by Checkpoint systems.

Meanwhile, Wal-Mart tested both antishoplifting systems and went with Sensormatic's more expensive Ultra Max product. Currently in 170 stores, Sensormatic just got a \$4 million to \$5 million order to install Sensormatic detection equipment in 100 more Wal-Mart stores. At the moment things are not looking very encouraging for Ted Wolf.

In mid-February, rumors that the NARM subcommittee had recommended Sensormatic's system caused Checkpoint's stock to collapse. In two days it dropped a third of its value, to less than 12. "People who consider this battle to be finished are wrong," the combative Wolf asserts nevertheless. "We are on the offensive."

Losing the battle won't necessarily mean the end of Checkpoint. There is general agreement that the winner will license its technology to others. But Ted Wolf's bizarre behavior has greatly antagonized the company on whose goodwill he may soon be forced to depend.



Gerald Klein, former Checkpoint president

"At least I don't have to put up with [Wolf's] crap anymore."

ers, who now have to apply the tags by hand on each item at the store. But it also means that retailers will have to decide on a standardized antitheft detection machine to install at their checkout counters.

Checkpoint and Sensormatic use two basic detection technologies. Checkpoint uses a radio frequency technology; in essence, each of its exit pedestals broadcasts a radio signal that is affected by the detection tag on the merchandise. Unless the tags on merchandise are deactivated at the checkout counter, the pedestal lets out a loud buzz, alerting the store's

devices. Under pressure from ecologists, manufacturers are doing away with the cardboard "longbox" packaging for CDs. Retailers, who prefer the longboxes as a deterrent to shoplifters, are going along but want the manufacturers to embed a standardized antishoplifting tag into each CD case at the factory. Before the end of the month the National Association of Recording Merchandisers will announce which antitheft technology its members want the manufacturers to use. It is possible that other retailers will follow the music industry's lead.

To sway NARM's decision, Wolf ran



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Jack Eugster, who has made Musicland by far the nation's largest record retailer, has his eye on bigger things.

Media merchant to the baby boomers

By Christopher Palmeri

FROM HIS HEADQUARTERS in Minneapolis, Jack Eugster, 47, runs the nation's largest record store chain. His Musicland and Sam Goody stores in 49 states account for 8% of total music industry sales. That's double the share of Tower Records.

A veteran of Target Stores and the Gap, Jack Eugster knows his merchandising. He was brought in to run the moneylosing record chain in 1980 when it was still owned by Primerica. He turned it around, in part by installing a computerized inventory system that remains the standard in the record retailing business. In 1988, with backing from Donaldson, Lufkin & Jenrette, he led a group that bought the Musicland Stores Corp. for \$410 million in a leveraged buyout. The LBO was a brilliant success.

Eugster added 200 new music stores and doubled sales to \$1 billion, all the while reducing long-term debt by \$70 million, to \$230 million, in December 1991. Musicland's cash flow (before interest, taxes and depreciation) more than doubled, to \$95 million, last year.

Finally, in February 1992, he took Musicland public at \$14.50 a share, raising \$130 million, which was used to pay down debt further, to \$103 million. No longer was the buyout leveraged; it was now conservatively capitalized.

And none too soon. Sales last year increased by just 2% at Musicland's mall-based music stores that have been open for at least a year. It is expensive to operate in a mall, so Eugster has been finding it hard to compete on price with the increasing number of bigger, freestanding record stores of the kind pioneered by



Musicland Chairman Jack Eugster

Coming soon: one store for all your media needs.

Tower Records. Because these stores are often housed in cheaper locations, they have been undercutting mall-based stores.

Such major record chains as Los Angeles-based Wherehouse Entertainment and Albany-based Trans World Music are also adding more of these larger, 10,000-to-15,000-

square-foot stores. Meanwhile, last year video rental giant Blockbuster Entertainment bought the Sound Warehouse chain and announced a joint record retailing venture with British billionaire Richard Branson's Virgin Megastores.

With the stepped-up competition and the slowdown in sales growth, Musicland's newly public stock has slipped about 15% from its offering price. But Eugster, his balance sheet in good shape, is counterattacking.



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In November he opened a huge, 40,000-square-foot store in Rockford, Ill. called Media Play. Costing more than \$1 million, it sells music, books, magazines, greeting cards, videogames and other kinds of entertainment software. Because it is in a suburban strip center, of the kind occupied by such discounters as Toys "R" Us, Office Max and Target stores, its costs are lower than if it were in an enclosed mall, so it can sell at discount prices. "Wal-Mart had to go down to match us [on CDs and cassettes]," says a gleeful Eugster.

In the new megastore, customers are encouraged to browse. There is a kids' play section, easy chairs in the travel book section, a cafe in the center of the store. This prototype Media Play has been open only a few months, but Eugster reckons it is on track to bring in its planned \$6 million to \$10 million in annual sales.

He says he'll open ten more oversized stores this year, and has already announced two locations, in Columbus, Ohio. Eugster proudly shows visitors a slide that projects that by 1998 Media Play sales could equal those of the Musicland music stores, suggesting companywide revenues in the neighborhood of \$3 billion.

Eugster is moving beyond records into videotapes with Musicland's chain of 255 Suncoast video stores. These stores stock tapes that typically sell for \$19.95 or less—a price that tempts consumers to buy rather than rent. This market has been heavily developed by big discount chains such as Wal-Mart and Kmart. Eugster believes that the discounters are about to lose share to specialty stores, just as happened in record retailing 20 years ago. That, he figures, will help him double the number of Suncoast stores—and more than double their sales—by 1997.

Eugster is an amiable Minnesotan with a solid sense of what the customers want. In part because he prefers it, in part because of the image it conveys, he encourages his male executives and salespeople to come to work tieless. But he isn't so casual when it comes to making claims for his new big store. "This is the full media store for baby boomers," he says. "This is a power center strategy for the 1990s."

Here's a bit of good news: A lagging economic indicator—Chicago's Brunswick Corp.—is finally turning up again.

Toes in the water

By Gary Slutsker

"WE ARE ALWAYS the first consumer durable to go down, and usually the last to come back up," says Jack Reichert, skipper of Skokie, Ill.-based Brunswick Corp., the world's biggest boatmaker, as he drags on a cigarette.

So how's the leading/lagging Brunswick indicator doing these days? Better, thank you. Sales at the winter boat shows in Chicago, London, Miami, Spokane and Dallas were up nicely. Reichert predicts that Brunswick's 1993 boat sales will be 15% above 1992, which were barely

10% above badly depressed 1991.

Not all lines are doing well. Sales of expensive pleasure boats remain in the tank, mostly because of the 10% luxury tax on boats costing more than \$100,000 that Congress imposed in 1991. The tax hasn't hurt many rich people, but it has cost several thousand boating industry workers their jobs. Though Reichert remains hopeful, no one expects the tax will be lifted by President Clinton.

What are selling are more affordable boats, priced below \$20,000.



Bruce Carroll

The new Bayliner 1400 Jazz jet boat (left), which seats three and costs around \$8,000, and the 20-foot Bayliner 2050 Capri runabout (bottom), which runs about \$12,500

Inexpensive boats are hot sellers.



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 **TOYOTA**



Churchill & Klein

Brunswick's Reichert and a model of the top-of-the-line, 65-foot, \$1.5 million Sea Ray Cockpit Motor Yacht
"Brunswick will never be a Steady Eddie."

The hottest boating product right now is the jet boat—in essence, a snowmobile on water. Kawasaki Motors popularized this idea 20 years ago with its Jet Ski line, but new variants are getting bigger. Recently, Reebok's Boston Whaler came out with a model that can seat up to five people, yet still costs under \$10,000.

To keep up, Brunswick has come out with two of its own jet boats, called Jazz and Sea Rayder, which cost around \$8,000 and seat three or four people. Reichert says these lines, along with aluminum fishing boats, are Brunswick's fastest growing.

Brunswick needs this upturn. Its business peaked back in 1988, when it earned \$200 million (\$2.20 a share) on sales of \$3.3 billion. Then the economy began slipping, and sales fell to a low of \$2 billion in 1991. Red ink flowed in 1989 and 1991.

Reichert manned the pumps. He shut 14 boat yards and three of Brunswick's Mercury marine engine plants. All told, he has eliminated some 8,000 jobs, 42% of Brunswick's marine employment. Reichert also used \$100 million raised last year in a stock

offering to reduce the company's debt-to-capitalization ratio to 27%, from 38% at the end of 1989.

Thanks to the cost-cutting, Brunswick was able to earn \$62 million pretax from continuing operations last year, on sales of \$2 billion, although writeoffs for retiree health care costs and divesting a defense unit caused Brunswick to report a \$26 million loss on the year.

Sensing the operating leverage Reichert has created in the company, Wall Street has bid Brunswick's stock to a recent 16—up from 12 last fall but still barely half the price when the stock market crash of 1987 beat a hole in the boating industry.

Some rough water lies ahead. Irwin Jacobs' Genmar Corp., the nation's third-largest boat builder behind Brunswick and Outboard Marine Corp., is the biggest customer outside of Brunswick for Brunswick's Mercury marine engines. Yet Genmar has sued Brunswick, charging that owning Bayliner, Sea Ray, Robalo and other boat companies gives it an unfair advantage over Mercury's other customers. Jacobs is asking the courts

to split up the company. Retorts Reichert: "That's like telling GM and Ford that since they're engine companies they can't build chassis."

Reichert must also keep his eye on the strict emissions rules that are likely to spread to North America from Europe. To be prepared, Brunswick is working with Chrysler and Orbital Sciences of Australia to clean emissions from its two-stroke engines.

Somewhat frustrated by the feast-or-famine nature of the pleasure boating industry, Reichert has been busily diversifying and pushing sales of smaller-ticket Brunswick items—everything from bowling games at Brunswick bowling centers to bowling balls to fishing rods and lures to golf clubs. Marine products now account for just over 70% of sales, excluding the soon-to-be-sold defense materials business, down from 75% in 1988. Reichert wants to reduce the figure to 60%.

"Brunswick will never be a Steady Eddie," says Reichert. "But we can avoid the depth of some of these valleys." But then we'll have to find a new economic indicator to watch. ■

When choosing
something as
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valuable
as their 800
service,
why do so many
companies
choose AT&T?

Rally's, the high-flying hamburger chain, may owe much of its success to overzealous cost-cutting.

Easy on the beef!

By Claire Poole

INVESTORS WHO'VE BEEN gobbling up the stock of Rally's, Inc., the high-flying drive-through hamburger chain, may be in for indigestion.

Rally's is controlled by Burt Sugarman, a onetime car salesman who lost millions in the entertainment business in the late 1980s before taking over Rally's in December 1990. By the numbers, the Louisville, Ky. fast-food outfit looks pretty tasty. Earnings rose 41% last year, to 76 cents a share, on a 34% sales gain, to \$296 million. An upgraded burger—with sliced onions and leaf lettuce instead of chopped fixings—was introduced in July 1991 with much fanfare. Rally's Nasdaq stock has nearly quintupled, to a recent 19¾, from a split-adjusted low of 4⅞ about two years ago. Rally's earnings multiple of 26 is above McDonald's (19) and Wendy's (22).

A good part of those earnings, however, trace to what may be overzealous cost control. What the spiffed-up Rallyburger, for instance, gains in fixings it loses in substance; it has 20% less meat than the old burger. And the meat now comes to the stores in frozen patties instead of fresh ones. These changes helped trim Rally's costs as a percentage of sales to 35% last year, from 39% in fiscal 1990.

But they've also prompted a revolt of sorts from at least one franchisee. Charles Hatch, a San Antonio franchisee who operates 12 Rally's in south Texas, has refused to go along with the smaller-size burger—for fear of losing customers to McDonald's and Texas-based chain Whataburger. Says he: "The more consistent you are in this business, the better off you are." Herbert Brown, chairman of Clearwater, Fla.-based Checkers Drive-In Restaurants, Inc., one of Rally's biggest competitors, thinks Rally's has made a big mistake. Says he: "Sooner or later, customers notice the difference." Could it be they already have?

Same-store sales at Rally's 197 company-owned stores slipped 4% in the fourth quarter. Rally's President Wayne Albritton blames the drop on new Rally's stores eating into sales of older stores in existing markets. He also blames acquisitions of other drive-through restaurants that aren't yet up to speed. But rival Checkers—which is expanding even more rapidly than Rally's—reported a 5% gain in its company-owned same-store sales in the same period.

Rally's is also spending less on advertising, from 8% of sales in the

fourth quarter of 1991 to 4.9% in the same period last year. Cutting your ad budget in a hotly contested market environment can be as shortsighted as skimping on the meat. Bruce Ley, Rally's marketing chief, says the company and its suppliers made additional contributions to Rally's national ad fund in 1991 as part of a special, one-time program for franchisees.

Whatever the case, Rally's will at least have to change some of its ad pitches. No longer can it claim—as it does on its take-out bags—to be the fastest-growing hamburger chain in the country.

None of this seems to have dampened management's expansionist zeal. Rally's plans to open 85 company-owned outlets this year and up to 65 new franchise stores. To pay for the expansion, Rally's plans to offer \$75 million of senior notes. This will increase its debt load to 59% of capitalization, up from 22% currently.

Is no one worried? Controlling shareholder Sugarman, through his holding company Giant Group, Ltd., has so far kept his 39% stake in Rally's, but other insiders have been selling. In November director Patricia Glaser sold 151,000 shares of Rally's stock—representing almost 95% of her holdings—at prices ranging from 18⅞ to 20¼. Glaser says she sold to pay debts incurred in buying shares.

One of Rally's franchisees, San Diego-based Self Service Drive Thru of California, which operates ten stores, has been selling off its stock over the last year. In November the franchisee filed with the Securities & Exchange Commission its plan to sell 101,330 of its remaining Rally's shares. Self Service won't comment.

Rally's, of course, could claim that by substituting onions and lettuce for beef it is protecting customers from overdosing on cholesterol.



Mike Clemmer/Picture Group

Rally's President Wayne Albritton at a drive-through in Birmingham, Ala.

Among other things, he'll have to change that slogan on the bags.

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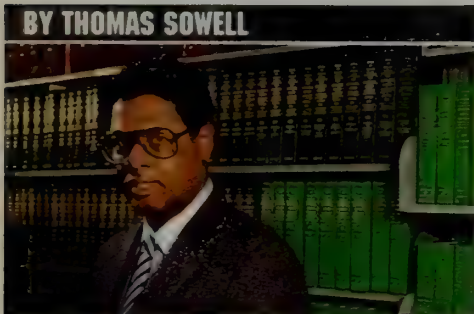


Bank of America

Many of those trying to protect homosexuals are helping make them targets instead. Nobody likes teachers' pets.

Gay bashing

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

ONE of the disturbing signs of our times was the recent beating of a homosexual man, who was dragged out of a gay bar in Wilmington, North Carolina, by three Marines from Camp Lejeune who were apparently drunk and angry about President Clinton's new policy on gays in the military. In another recent incident, a homosexual sailor was brutally beaten to death by a shipmate overseas.

If these were just isolated incidents, they might be simply local criminal cases. But if physical attacks on homosexuals are increasing, as some seem to think, the implications may be wider and more grave.

Whatever growing public hostility there may be to homosexuals, gays remain sacrosanct in the media, in politics and in academia. These apparently contradictory trends may be connected.

Many of those who are trying to make homosexuals sacred cows are helping to make them targets instead. Nobody likes teachers' pets. And they are especially disliked when people feel that their own rights and their own lives are being treated as expendable.

Gay activists do not hesitate to engage in the most outrageous public behavior, whether in parades, in colleges or in St. Patrick's Cathedral.

Shrill demands and blatant disregard of other people's rights and feelings have become standard among activists who decry the "insensitivity" of others.

For years, public health policy on AIDS has been dominated by fear of offending the homosexual lobby. The whole emphasis of AIDS policy has been to protect AIDS carriers from the public, not to protect the public from AIDS carriers.

Whatever protective measures have been taken for the public have been backed into belatedly, after numerous lives were needlessly sacrificed, while the authorities assured us that the blood supply did not need testing, that gay bathhouses need not be shut down, that health care workers need not take any special precautions when handling AIDS patients, and the rest of the hollow litany.

Any criticisms of these double standards, or of the political tactics of the gay lobby, is automatically condemned as "homophobia." But, despite such attempts at moral intimidation, it is circular, to the point of silliness, to say that any conclusion unfavorable to gays must be disregarded because it must have been due to being unfavorably disposed at the outset.

When people who would have no objection to homosexuals' being rocket scientists, billionaires or Nobel Prize winners, nevertheless object to homosexuals being privates in the army, that is not because they have a "phobia" against homosexuals. It is because they have an opinion about the effects of having gays in the military.

Those who disagree with that opinion can express the reasons for reaching a different conclusion, but when they resort to cheap shots about "phobias," it suggests that they cannot argue the merits of the case.

Most people would have no occasion even to think about homosexuals—much less develop a "phobia" about them—if it were not for AIDS and gay activists.

Chances are, the average homosexual wants what most other people want, to go about his business in peace and neither bother anyone nor be bothered. But that is not the agenda of the activists and "leaders" in the gay lobby, any more than it is the agenda of noise-makers and "spokesmen" for all sorts of other groups.

The current controversy over homosexuals in the military is being discussed, like too many other issues, solely in terms of the individual. However, what matters is not how individual homosexuals perform their jobs but what effect the open acceptance of homosexuality in the military—and especially in military barracks—will have. The same would be true if we were considering whether to have women living in the same barracks with men.

It is not a question as to whether you like or don't like women or homosexuals, or whether they perform their own individual duties well. The question is how their presence affects the morale and functioning of a military unit—and that is ultimately a life and death question when that unit goes into combat.

The same question could be raised about draftees in an elite military organization like the Marines. Those of us who were draftees in the Marine Corps during the Korean war may have performed our individual duties well, but there is no question that our attitudes were not the same as those of career Marines who had volunteered—and that this difference undermined the esprit de corps.

Whether considering the role of draftees, women, or homosexuals in the military, the relevant question is how they affect the organization—not how they perform individually.

Gay bashing is not something that should be tolerated. But neither should gays be allowed to bash the rest of us when we dare to discuss their issues the way we would discuss issues involving any other group of human beings.

What really penalizes economic performance is not the deficit but the government's share of national output.

Why the deficit is the wrong number

by Peter Brimelow

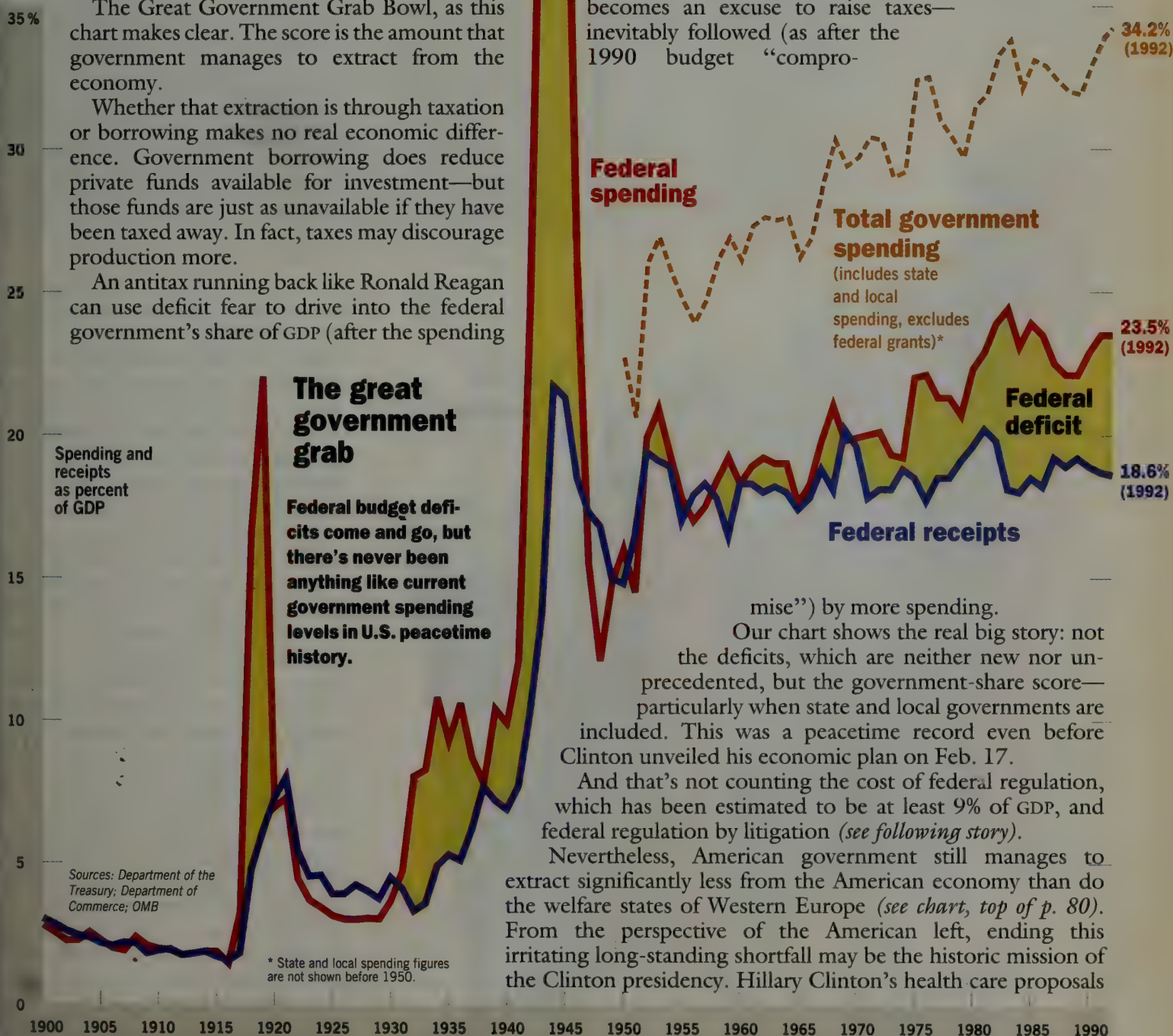
IT'S PAINFULLY OBVIOUS that the federal budget deficit is just a political football. But what's the game?

The Great Government Grab Bowl, as this chart makes clear. The score is the amount that government manages to extract from the economy.

Whether that extraction is through taxation or borrowing makes no real economic difference. Government borrowing does reduce private funds available for investment—but those funds are just as unavailable if they have been taxed away. In fact, taxes may discourage production more.

An antitax running back like Ronald Reagan can use deficit fear to drive into the federal government's share of GDP (after the spending

spasm automatically induced by the 1981-82 recession). But with a fumbler like George Bush, and now with Bill Clinton, the deficit becomes an excuse to raise taxes—inevitably followed (as after the 1990 budget “compro-



mise”) by more spending.

Our chart shows the real big story: not the deficits, which are neither new nor unprecedented, but the government-share score—particularly when state and local governments are included. This was a peacetime record even before Clinton unveiled his economic plan on Feb. 17.

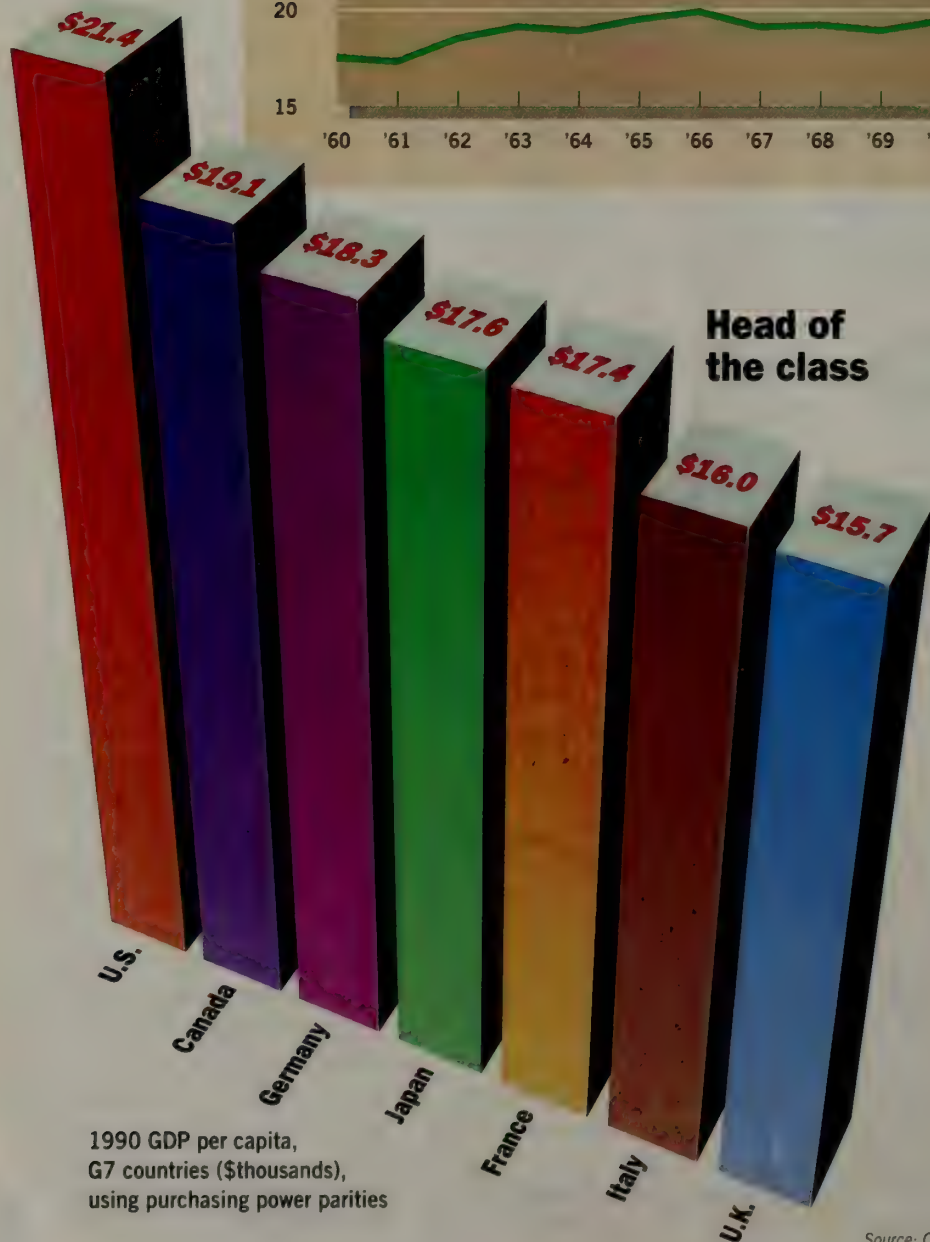
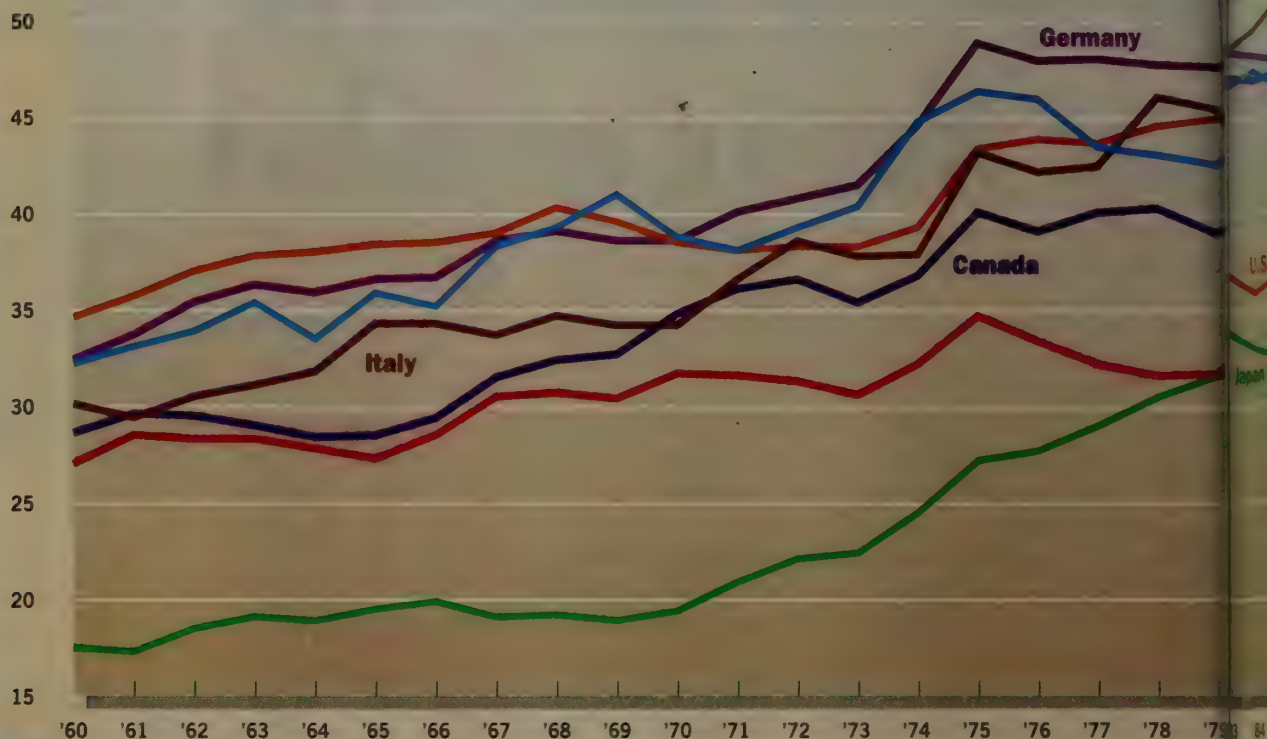
And that's not counting the cost of federal regulation, which has been estimated to be at least 9% of GDP, and federal regulation by litigation (*see following story*).

Nevertheless, American government still manages to extract significantly less from the American economy than do the welfare states of Western Europe (*see chart, top of p. 80*). From the perspective of the American left, ending this irritating long-standing shortfall may be the historic mission of the Clinton presidency. Hillary Clinton's health care proposals

All levels of government in the U.S. and Japan have consistently spent less than in other industrialized countries (by OECD count, which differs slightly from the U.S. government's). But as the bars below show, it seems to have worked out just fine.

Trailing the pack, fortunately

Total government outlays as percent of GDP



1990 GDP per capita, G7 countries (\$thousands), using purchasing power parities

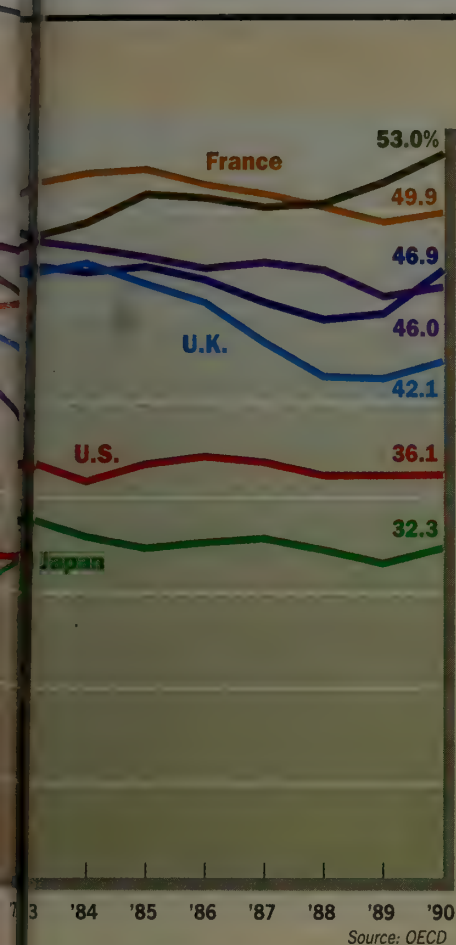
Source: OECD

alone reportedly may increase government share another 1.5% of GDP.

The U.S. and Japan have consistently had the smallest government shares of any of the major industrialized economies. And, perhaps not coincidentally, they also have, respectively, the largest output per capita (see chart left) and the fastest economic growth rate.

Government shares of the national income do move in tandem, and not just with inflation and recession. The international enthusiasm for activist government beginning in the 1960s—the U.S. version was the Great Society—has never been reversed. But individual leaders matter, too. Canada shifted to a high government share under Pierre Trudeau (1968-79; 1980-84), apparently permanently. Britain eventually reduced its government share under Margaret Thatcher (1979-90), although seemingly less permanently. In the U.S., Ronald Reagan's 1981-89 effect at the federal level was neutralized by state and local bloat.

Government share in the U.S. is virtually certain to rise anyway, because of the machinations of the



social Security system. Pretensions of a "trust fund" notwithstanding, Social Security is essentially a subsidy paid to the old and retired by the young and working. Similar systems are in place throughout the industrialized world. In Western Europe, the population is significantly older than in the U.S. or Canada, so the transfers are significantly greater. This explains some, but not all, of the greater share of Western European output that passes through government hands.

For example, Canada's Fraser Institute has pointed out that in 1988 social security contributions amounted to almost 20% of French GDP and almost 15% of Germany's. By contrast, Social Security contributions were less than 9% of U.S. GDP and less than 5% of Canada's. As age causes the North American populations to resemble Europe's, so will the share of North American GDP taken by Social Security transfers.

Transfers like Social Security, which finish in private hands, are obviously not quite the same thing as expenditures that are actually consumed by government, such as de-

fense spending. Government grabbers often argue that therefore they don't really count.

"But transfers have an unambiguously negative effect on the economy," responds William Niskanen, Chairman of Washington, D.C.'s Cato Institute and a former member of Reagan's Council of Economic Advisers. "First, there's the extraction cost, the misallocation caused by the tax levied to finance them. Second, there's the distortion of incentives when they are disbursed."

Washington will certainly applaud if Clinton gets government GDP share into new high ground. But the economy probably won't. More government means less growth. This statistically significant inverse relationship can be charted as a Rahn Curve—named after Richard Rahn, president of Washington, D.C.-based Novicon, who developed our version (*below*) in the 1980s when he was chief economist with the U.S. Chamber of Commerce. And that was before the collapse of communism (government share: 100%).

"If government is under about 15% to 20% or above 35% to 40% of GDP, growth will be retarded," says Rahn.

The lower end, he suggests, reflects an inadequacy in basic services like law and order. But this is hypothetical. Hong Kong has flourished famously with government spending in the 11% to 19% range.

Government can increase its revenue share beyond 20%, but at an increasing price to the economy. In the upper reaches, extraction costs and increasing evasion make further tax hikes decreasingly productive.

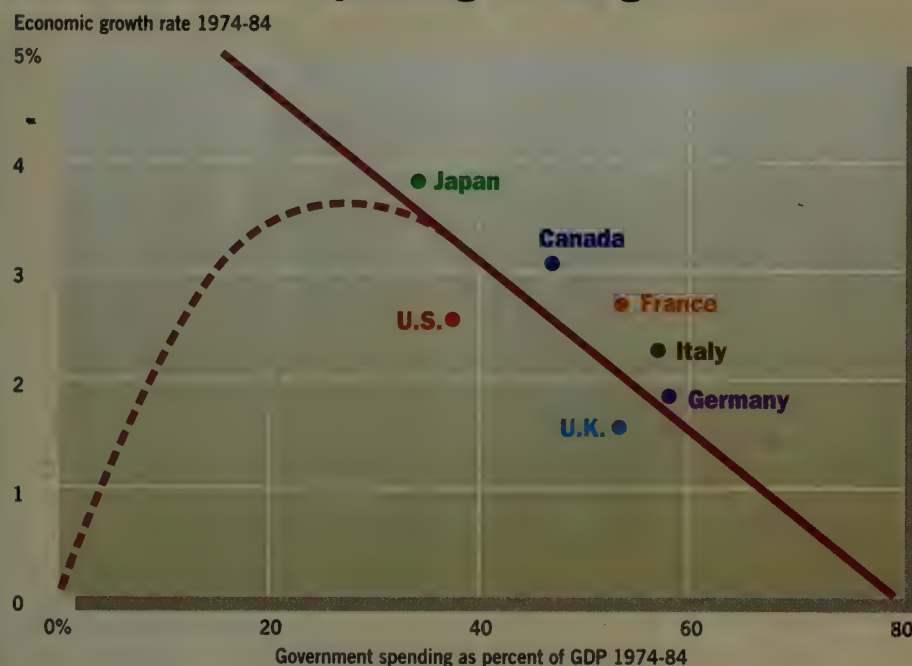
This is not a danger that worries the Clinton Administration, however. In the wake of the President's Feb. 17 speech, Office of Management & Budget Deputy Director Alice Rivlin came to bring the gospel to *FORBES*. We asked her what the federal government's share of GDP would be in 1997, after the dust settled. Rivlin said that—after the stimulus package—it would come down slightly: "I'm not sure I have that number in front of me."

Down one percentage point?

Rivlin (demurring): "It will be down modestly. We haven't calculated it. This is the first time anyone has asked that question. It's a good question."

Yeah. And when the answer does

The Rahn Curve: spending versus growth

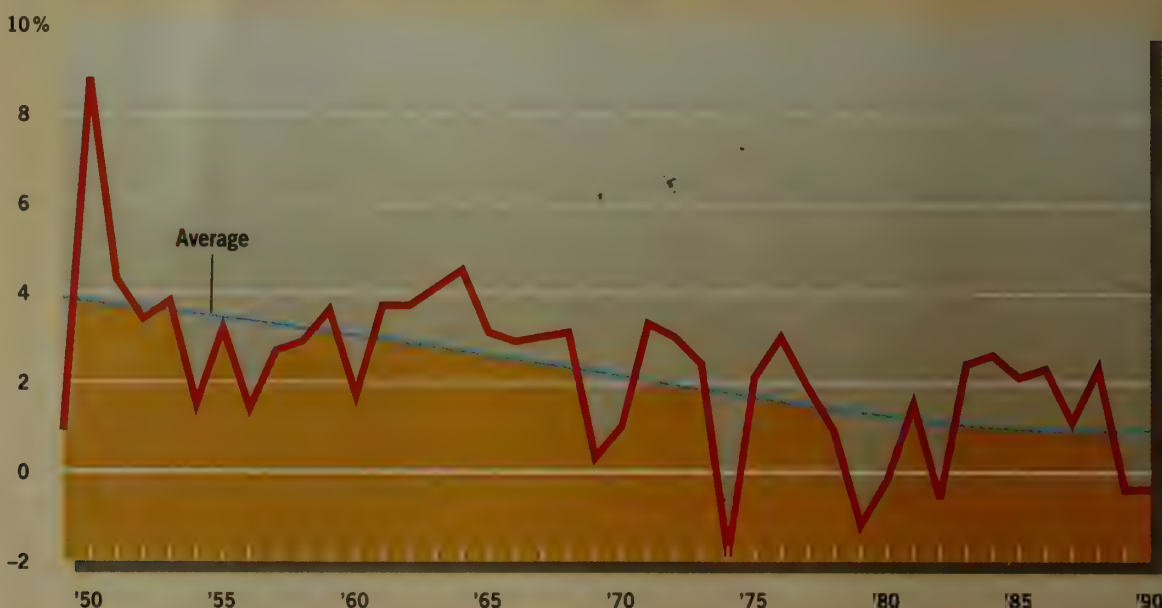


Government spending seems to come at the expense of economic growth—at least in the experience of modern industrial economies. Perhaps public spending helps at lower levels of economic development. Perhaps.

There's no agreement why U.S. productivity numbers are deteriorating. But it's a fact that the decline does correlate with the growth of government.

U.S. productivity palls...

U.S. output per labor hour of all persons (year-to-year percent change)



Source: Bureau of Labor Statistics

come in, the government's share will quite probably be not down but up.

Arguably, the worldwide increase in government share of GDP is already being felt. The increase may help explain two conundrums that have baffled economists for some time: the decades-long decline in U.S. productivity growth (*see chart above*) and the simultaneous slowdown in world eco-

nomical growth (*see chart below*).

To be fair, there are skeptics who argue that both phenomena may be exaggerated by measurement difficulties—particularly productivity, a notoriously slippery subject. But still, the lines are not going up.

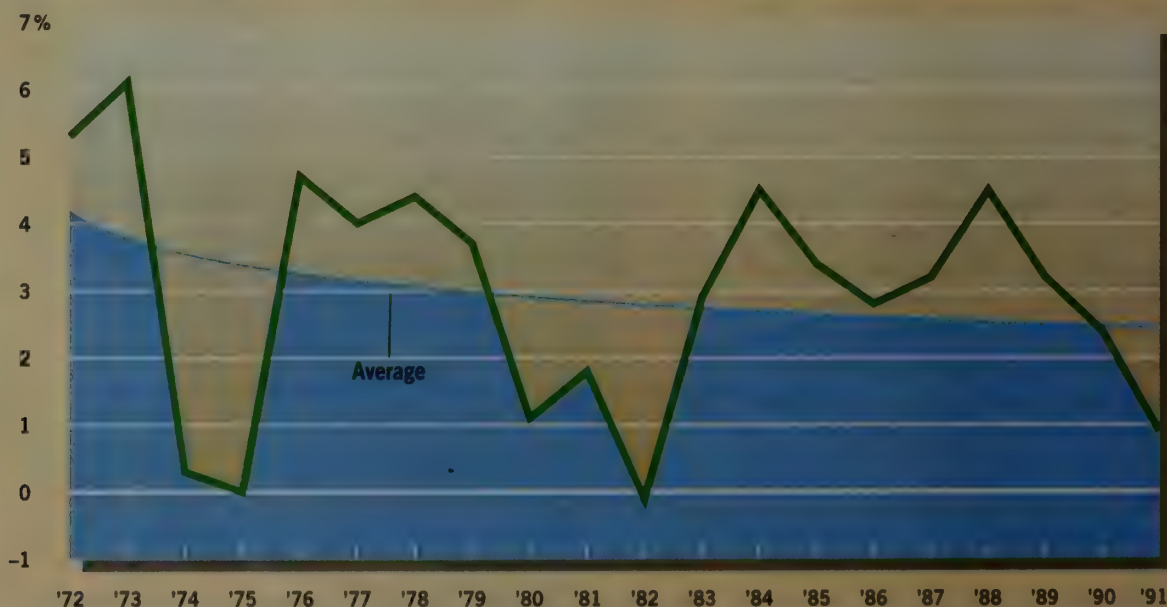
Except for the four Asian Tigers—Hong Kong, Singapore, South Korea and Taiwan. “They have lower gov-

ernment shares, maybe half the average of the G7, lower tax rates on capital and lower tax rates on work,” says Alvin Rabushka, senior fellow at Stanford University’s Hoover Institution. “And they have the fastest growth rates. It’s the only time in the history of the world where countries have gone from rags to riches in one generation.”

Internationally, too, the major economies have gone into an unexplained slowdown—just as their governments’ shares of GDP have been rising.

...industrial world growth grinds down

G7* real GDP growth (year-to-year percent change)



*G7=U.S., Japan, Germany, France, Italy, U.K. and Canada.

Source: OECD

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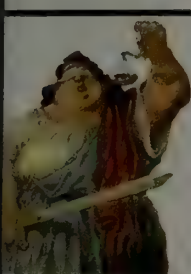
**IN THE CAR BUSINESS, YOU LEAD, FOLLOW
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President Clinton is serious about cutting federal spending, he should hand a sharp ax to his new Attorney General designate and tell her to start swinging it. Justice is Washington's fastest-growing and most duplicative bureaucracy.

How about a little restructuring?

Janet Novack



SINCE 1980 the U.S. Department of Justice's budget has more than quadrupled. In this period, Justice's payroll has swelled from 53,400 to nearly 98,000, growing 4½ times faster than federal civilian payrolls as a whole. Today there are 4,200 local assistant U.S. attorneys, 2½ times as many as in 1980.

As its staffs have grown, so has Justice's role in American society—although the real work Justice does hasn't risen as fast as its staff. This illustrates once again the truth of C. Northcote Parkinson's Law of bureaucracy: Work expands so as to fill the time available for its completion. And Parkinson further observed, as the real or imagined work expands, the bureaucrats ask for more bureaucrats to do it.

The Justice Department has been a prime instrument for thrusting the federal govern-

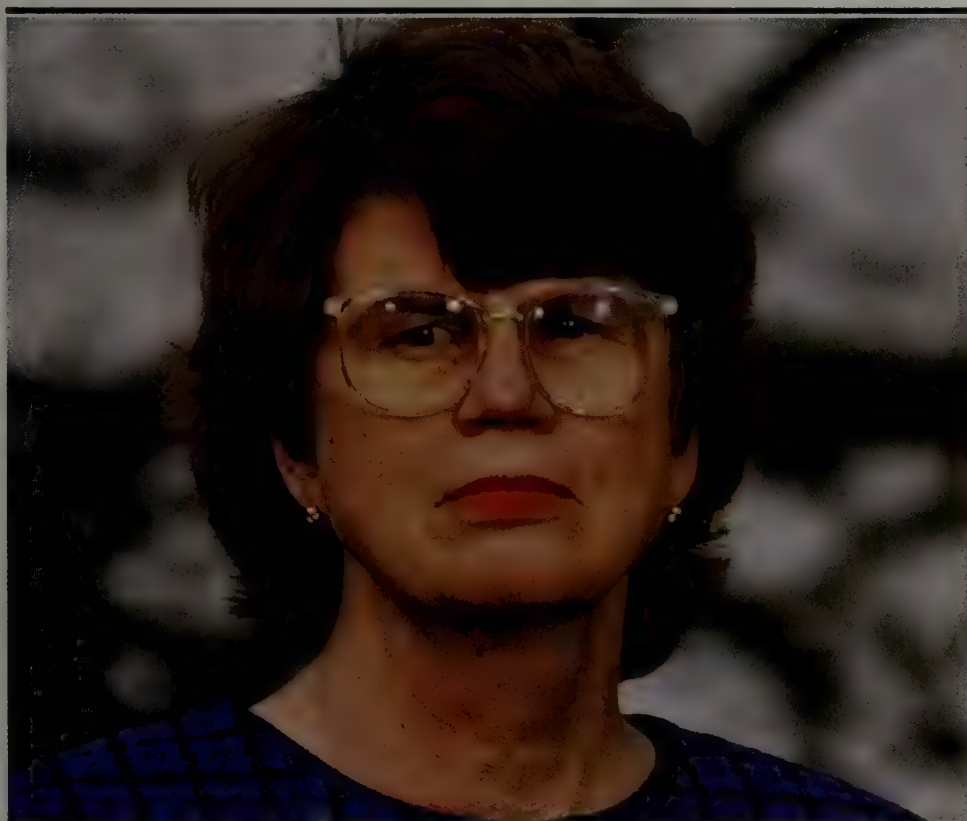
ment ever deeper into the lives of the citizenry. When the U.S. government was born there were 3 specific federal crimes: treason, counterfeiting and piracy on the high seas. With patriotism in intellectual disrepute, there isn't much work for Justice in the treason line today. Counterfeiting remains a problem but accounts for only about 2% of U.S. prosecutions. Old-fashioned piracy scarcely exists. But Justice is not running out of work. Congress keeps defining new crimes. Today there are not 3 federal crimes but more than 3,000.

Why has Justice grown so explosively?

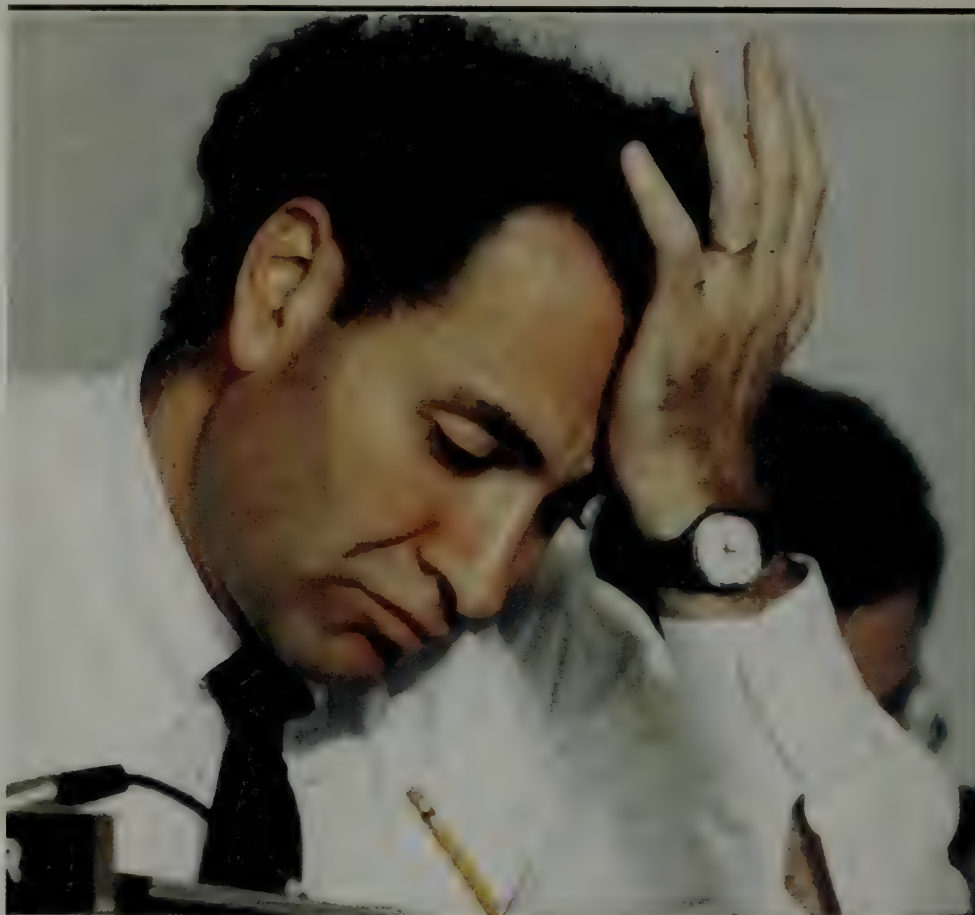
Because the politicians, frustrated by high taxes and by the deficit, have found a way to grandstand for the voters without increasing visible taxes. Hiring a few thousand new lawyers and sleuths is a lot cheaper than finding tens of

he Justice Department has been a prime instrument for thrusting the federal government ever deeper into the lives of the citizenry.

Robert Tripp/Sipa



Attorney General designate Janet Reno
Will she carry a sharp enough ax?



Representative Charles Schumer (D-N.Y.)

"This is one thing people are willing to pay for."

billions of dollars for new programs. But this is not a cheap exercise for society. In a recent article (*Feb. 15*), *FORBES* quoted experts who estimated that every dollar the government spends on regulatory enforcement inflicts about \$20 in compliance costs upon private citizens.

Justice increasingly thrusts itself into American life as the policeman for expanding federal regulation. Many of the new federal crimes Congress has created are actually bastard children of regulation, whether it's in banking, securities trading or the environment, or even the war on drugs. Distributors of certain chemicals risk going to jail if they don't screen their customers to weed out potential illegal drug-makers; car dealers and other merchants now break federal law if they do not report someone paying with large amounts of cash.

Business is even being forced to pay some of the direct costs of Justice's growth. Congress last year ordered that registration fees paid by drugstores, doctors and other legitimate dispensers of controlled substances be quadrupled (to \$66 million a year) to pay for criminal investigations into the illegal diversion of drugs.

Political leverage is what this is all about. Passing new laws makes Congress seem responsive to the wants and fears of the voter. *Seem* responsive. Stealing someone's car at gunpoint was already a serious crime in all 50 states. But after a Washington, D.C. suburban mother was killed in a savage carjacking last September,

Congress made a show of getting tough on crime by making armed carjackings a federal crime. Now carjackings can be prosecuted by U.S. Attorneys, if they choose. So far the feds have prosecuted only about two dozen cases but have made lots of headlines doing it.

Representative Charles Schumer (D-N.Y.), chairman of the House subcommittee on crime and the sponsor of the carjacking bill, is proud of his work: "This is why government was formed, to make people feel safe. This is one thing people are willing to pay for."

Trouble is, they are already paying for it through state and local law enforcement agencies. In 1991 state and local governments spent about \$75 billion on cops, prisons, prosecutors and courts, a sum in no way diminished by increased federal spending.

There is no evidence that adding a federal layer of law enforcement decreases the number of armed carjackings.

Burke Marshall, a noted Yale Law School professor, recently examined the Justice Department for the Clinton transition team. Opines Marshall: "If we're talking about the kind of crime enforcement people are interested in, the money ought to go into building up the local police and enforcement rather than increasing the bureaucracy in the Department of Justice." Despite the near doubling of the Justice payroll in a decade, state and local governments still handle 94% of all prosecutions.



Political leverage is what this is all about. New laws make Congress seem responsive to the wants and fears of the voter.

Far from helping local governments counterme, the feds have actually cut back their financial support for the locals. In 1976, \$872 million, or 26% of federal justice spending, went to local law enforcement; in 1990, only \$728 million, or 7% of the pot, did. Supreme Court Chief Justice William H. Rehnquist has concluded: "The nation can no longer afford the luxury of state and federal systems which work at cross-purposes or which irrationally duplicate each other's efforts." Clinton has proposed putting more federal money into support for local cops. But this could simply lead to more duplication.

Too often in federal enforcement the name of the game is publicity, not a reduction in the amount of crime. In cases with high publicity value, federal prosecutors sometimes go after a criminal who is already under state indictment or is already in the state pen. In 1991 the U.S. Attorney in Philadelphia tried a 66-year-old man who had already been convicted in state court of running a drug and crime ring and was in the state pen facing a 20-to-40-year term.

Federal prosecutors are also reaching down to the local police blotter and trying all sorts of gun and drug cases. "These are all cases that the locals can try, but the federal prosecutors cherry pick them," complains Newman Flanagan, who retired last year as Boston's district attorney and is now executive director of the National District Attorneys Association.

Yet the Justice Department has been remarkably successful in wrapping its efforts in a noble mantle. Representative Bob Wise (D-W.Va.)

was from January 1989 through 1992 chairman of a House subcommittee that attempted to oversee Justice. "If you criticize Justice," Wise says, "the implication is created that you're undercutting the effort to fight drugs and criminals." The Justice Department, he adds, "is an incredibly deep bureaucratic swamp."

Like any swamp, this one is full of decayed matter. U.S. District Court Judge J.P. Stadtmueller was U.S. Attorney in Milwaukee before he was appointed to the bench in 1987. Judge Stadtmueller says: "Many U.S. Attorneys' offices have 25% to 30% deadwood. If these people were in private law firms, they would have been out on the street a long time ago."

Like any bureaucracy, this one moves inexorably toward entrenching itself. Until the early 1980s assistant U.S. attorneys basically served at the pleasure of the country's 93 U.S. Attorneys, who are appointed by the President. The U.S. Attorneys could fire their assistant attorneys. But thanks to a series of court decisions and a 1990 law passed by Congress, assistant U.S. attorneys now enjoy what amounts to near lifetime job security.

Many Justice Department lawyers have every incentive to seek job security. U.S. Attorneys earn \$113,500, while assistant U.S. attorneys without supervisory responsibilities now earn up to \$87,900 a year—and up to \$94,900 in high-cost cities like New York and Los Angeles. National median earnings for lawyers: \$56,420. Former D.A. Flanagan notes that as Boston D.A. his pay was only \$72,500; he also says his assistants generally earned little more than half



Federal prosecutors are also reaching down into the local police blotter.

Left: Siochios Woodfin Camp



Atlantic City
Attorney Rudolph
Westmoreland
jury acquitted
him, but it cost him
40,000 to de-
fend himself.



With the collapse of the Soviet Union, the FBI can no longer justify so many counter-intelligence agents (the exact number is classified). Will it cut back? Don't be silly.

of what their counterparts in the federal government did, while carrying a heavier caseload.

No surprise then that annual turnover among Justice Department lawyers was just 5% last year, down from 13% in 1980. The federal government's 31,000 criminal investigators (not all in Justice) do nicely, too, averaging \$62,000 a year, including overtime, compared with a median of \$27,500 for all police and detectives.

Are Justice Department lawyers overworked? Some certainly are. But between 1980 and 1991 the number of criminal cases filed per assistant U.S. attorney dropped 40%; civil filings per attorney fell 38%. The number of individuals indicted per assistant attorney has dropped 33%. There's clearly a productivity problem here.

What do these 98,000 Justice employees do? Three-fourths are in what might be termed Justice's wholly owned subsidiaries: the Bureau of Prisons, 24,000; the FBI, 24,000; the Drug Enforcement Administration, 7,100; U.S. Marshals, 3,700; Immigration & Naturalization Service, 11,700.

As for the more troublesome balance, almost 1,400 are at the top in "general administration." Another 13,500 are lawyers and their assistants. Burke Marshall says this about the swelling Justice bureaucracy: "Because of the proliferation of federal crimes, the turf fighting is getting worse."

For example, the Drug Enforcement Administration, Federal Bureau of Investigation and Immigration & Naturalization Service all have some responsibility for waging the war on drugs. The FBI and DEA maintain separate computerized drug intelligence systems, as do numerous agencies throughout the federal government. Wouldn't it be more efficient if they pooled their resources? Yes, according to estimates that DEA informally provided to Congress, about \$100 million a year could be saved by merging systems.

But instead, in 1990 yet another organization—the National Drug Intelligence Center—was layered on top to build a new comprehensive drug trafficking database. When fully operational, it will have 150 employees in Johnstown, Pa., the home of Representative John Murtha (D-Pa.), who pushed funding for it through Congress.

Last year, sensing big bucks in guns, the FBI attempted to gain more jurisdiction over firearms violations—the traditional province of Treasury's Bureau of Alcohol, Tobacco & Firearms—leading to a personal confrontation between then Treasury Secretary Nicholas Brady and then Attorney General William Barr.

With the collapse of the Soviet Union, the FBI can no longer justify so many counterintelligence agents (the exact number is classified). Will it cut back? Don't be silly. So far it has

transferred 385 to fight violent crime and 65 to investigate health care fraud. Now it is enthusiastically pursuing alleged economic spying against the U.S., much of it, it is said, by our allies.

The FBI isn't always the encroacher. The Secret Service, which finds itself with rather too little to do to justify manpower between elections, got friends on the Hill to assign it some investigative duty.

In the early 1980s the Reagan Administration actually came close to merging DEA and FBI, and in 1984, 56 separate projects were undertaken to integrate various functions of the two agencies. Only 9 of the 56 projects were completed, the rest dropping into bureaucratic limbo. One successfully merged area was training. But now DEA has gotten \$11 million and is hunting for another \$23 million to build its own training center in Quantico, Va.

With so many federal agencies involved in the war on crime, sometimes they end up not only duplicating but tripping over each other. In one notable case, Jay Stephens, U.S. Attorney for the District of Columbia, had to referee between the DEA and the FBI, which were both trying to trap then Mayor Marion Barry on a drug charge. (Stephens persuaded the DEA to back off.)

The agencies are all so keen to claim credit for drug seizures that the government had to create a special Federal-wide Drug Seizure System to eliminate double counting (FDSS showed 3,034 pounds of heroin seized in 1991, with Treasury's Customs Service claiming credit for 2,960 pounds and DEA insisting it was responsible for 2,455 pounds).

Meanwhile, Congress keeps handing Justice new excuses to demand more money and personnel. Congress attempted to rein in lenient judges by creating strict guidelines for sentencing offenders, and decreeing that convicts must serve at least 85% of their federal sentences for crimes committed after Nov. 1, 1987. Since then, responding to what they saw as a popular demand for a crackdown, the politicians have layered stiff mandatory minimum sentences for certain drug crimes on top of the guidelines.

These tough mandatory sentences have done little to reduce drug traffic, but they have enabled the Justice Department to create new jobs in the prison system to guard convicted two-bit dealers. Since 1986 the Bureau of Prisons has doubled in size, to 24,000 employees. It's expected to grow to 37,000 by 1995.

Harvard University Associate Professor Mark A.R. Kleiman is a respected student of the drug problem. He says the money used building jail and hiring guards could more efficiently be spent for intensive supervised probation or parole with drug-testing for drug-using offenders.

S. District
 urt Judge
 P. Stadtmueller
Many U.S.
attorneys' of-
ices have 25% to
1% deadwood."

Dave Schabowski



We've got to learn how to control people without paying their room and board bills."

The discovery by our society of any new category of crime is a potential growth area for justice. In that sense environmental crime has been a godsend. Washington defense attorney Reid Weingarten, who spent ten years as a justice prosecutor, says: "The attitude among federal prosecutors is that if a truck driver dumps toxic waste into the river, the president of the company goes to jail if he had a lax environmental program."

"The federal government has no business making every piece of dirt dropped on your property a federal crime," complains Paul Kamenar, executive legal director of the Washington Legal Foundation. Kamenar's foundation has taken up the causes of three men—in Florida, Pennsylvania and Maryland—sent to jail for wetlands violations. Warns Kamenar: "Congress is ready to federalize anything they think is social ill."

The savings and loan mess certainly proved that. No matter that Congress itself bears most of the responsibility for the mess, no matter that many congressmen were deeply implicated, Congress was happy to give Justice the money to seek scapegoats in the disaster (*FORBES*, Sept. 28, 1992). In 1990 and 1991 Congress voted Justice an extra 1,854 attorneys, criminal investigators and support staffers, including 320 new prosecutors in the U.S. Attorneys' offices.

Atlantic City attorney Rudolph Westmoreland was indicted in Milwaukee in 1991 on three counts relating to an alleged conspiracy to

defraud a now defunct S&L. His crime? Prosecutors alleged Westmoreland fibbed on a mortgage application for a four-bedroom Phoenix house when he said he was buying it as a second home. Westmoreland, they asserted, was actually buying the house not for himself but for his brother. (The mortgage in question was paid in full after the brother took title to the house and refinanced it.)

After a three-day trial, a jury acquitted Westmoreland. Cost to Westmoreland to defend himself: \$40,000. Cost to the taxpayers to prosecute him: plenty.

When the thrift mess is cleaned up, what will happen to the S&L prosecutors? Professor Parkinson would know the answer. Already there's talk of how useful they'd be pursuing bankruptcy fraud or other white-collar offenses.

Not satiated with spending taxpayer money, the Justice Department—like the Argentinean army under Perón—builds revenue sources of its own. The army ran its own factories and businesses, some built up with seized assets. Since 1988 Justice has spent more than \$850 million realized from the seizure of cash and assets associated with criminal activities.

Seizures began to be used aggressively in 1978 as a weapon against drug dealers. But since the late 1980s seizures have been used—along with money-laundering charges—against all manner of alleged white-collar criminals. Money laundering has replaced RICO (the Racketeer Influenced & Corrupt Organizations Act) as Justice's favorite weapon for attacking business people. "RICO looks mild by comparison to the



With so many federal agencies involved, they sometimes end up not only duplicating but tripping over each other.

money-laundering statutes. Money laundering is much easier to prove," says Michael Goldsmith, a Brigham Young University Law School professor who is an expert on both laws.

RICO charges, though temptingly broad, turned out to be difficult for prosecutors to prove. Rudolph Giuliani, the publicity-loving former U.S. Attorney in Manhattan, had some momentary glory when he won RICO convictions against executives from Princeton/Newport Partners, for alleged tax violations. But the appeals court later reversed those convictions.

"There's no sense that Justice is concerned about citizens' rights, no matter what kind of crimes they're accused of," says Miami lawyer Talbot D'Alemberte, past president of the American Bar Association and a friend of Attorney General designate Janet Reno.

In *Macbeth* Shakespeare has Banquo say to the witches: "If you can look into the seeds of time, and say which grain will grow and which will not, speak then to me. . . ."

Okay, we will. There are several grains in the Justice Department that promise a lot of growth:

Justice's environmental division in Washington, with 660 staffers, is sure to grow smartly under Clinton, since he has promised even more environmental enforcement. Look, too, for more environmental cases to be initiated in the field by the U.S. Attorneys who dream of the exposure they could get from them on the nightly news.

The Civil Rights division (with 510 employees) and Antitrust (with 460) are almost guaranteed extra business and more growth.

Last year Congress made it a federal offense to fail to pay child support to children in another state. Clinton has endorsed a bill being pushed by key Democrats that would make wife-beating a federal crime, too. More work, lots more, for Justice.

And then there's the Bureau of Prisons. Absent any major revamping of the sometimes illogically harsh mandatory minimum sentences, the prison bureaucracy can do nothing but grow and grow.

Any bets on how big the Justice Department will be three years into the Clinton Administration? 100,000 employees? 110,000? More? ■

If the public would stop believing that the federal government can fix things that are unfixable or too expensive to fix, perhaps government spending could be brought under control.

"Collective lunacy"

By Damon Darlin

PRESIDENT CLINTON stood before Congress, boasting of slashing his White House staff and pledging to cut another 100,000 federal bureaucrats. He urged the hiring of 100,000 local police instead.

Loud applause. It was an empty promise but a politically palatable one. Hiss the bureaucrats. Cheer for the man in blue.

Not so fast, though. Hear out James Q. Wilson, who has spent his entire academic career studying bureaucracies and crime. This University of California, Los Angeles, political scientist has long argued that bureaucrat-bashing misplaces the responsibility for bad government. His brilliant, beautifully written 1989 book *Bureaucracy* argues that it is simplistic to blame bloated and inefficient government on greedy bureaucrats. The political system is the real problem, the author says.

Interviewed by FORBES in his airy home looking out to the Pacific Ocean just north of Malibu, Wilson pointed out that the bureaucrats are simply doing what Congress tells them to do, and that Congress is responding to a public encouraged by politicians to believe in the myth that the federal government can cure all ills and solve all problems. "The result is that everyone is acting rationally and the collective result is monstrous or lunacy," says Wilson.

Take the 1991 federal highway law, which purportedly will rebuild America's transportation system. The text, he says, is ten times as long as the original Eisenhower Administration

law creating the interstate highway system. Under the 1991 law an administrator isn't charged simply with getting a road built. He is charged with protecting the environment, advantaging the supposedly disadvantaged, preserving history and taking care of the disabled. Little wonder that the bureaucracy moves sluggishly and inefficiently.

The resulting frustrations, Wilson says, do not, as often supposed, arise from poor management. "They arise out of governance problems," he wrote in *Bureaucracy*.

Name most any social problem—crime, pollution or poverty—and you'll see what Wilson is talking about. Everything has become a concern for the federal government. It wasn't always thus. As the preceding story shows, there were only 3 federal crimes at the founding of the Republic; today there are more than 3,000. Redistributing income and creating job quotas was no part of the federal government's job. . . .

But in recent years, people have come to believe that the federal government is responsible for everything—from curing AIDS to righting ancient wrongs. "It's the most profound transition that has occurred in American government in my lifetime," says Wilson of this shift in popular beliefs.

Carjacking: Call the FBI. Scarce waterfowl: Bring in a U.S. Attorney. Wilson: "You never hear any debate about the proper role of the federal government except from a few cranky senators.

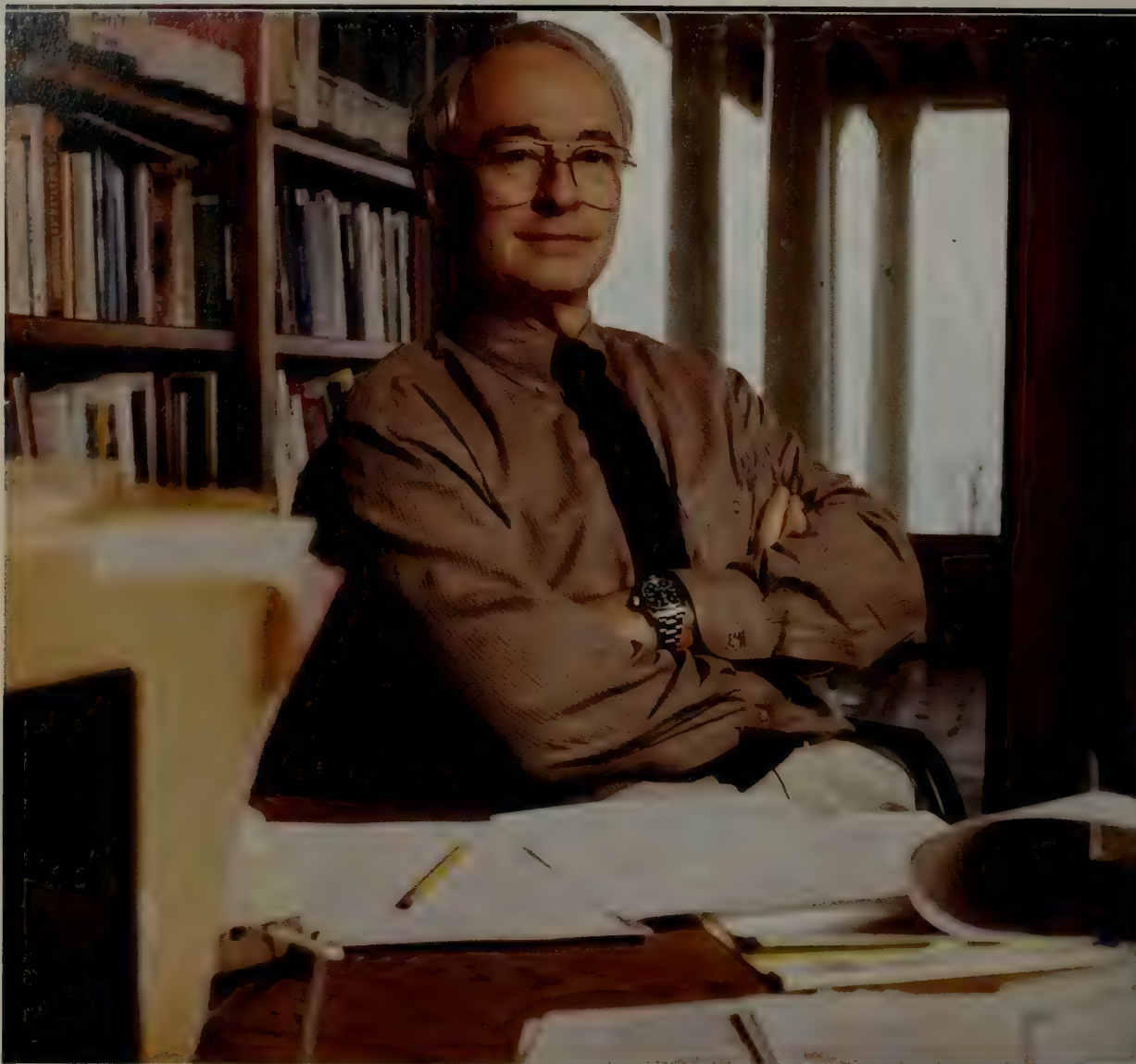


How inviting is your home?

It's the obvious but overlooked things that often cause home burglaries. You go on vacation, but forget to tell neighbors. And so mail and newspapers pile up. Or you leave your house totally dark. Or the fence out back is so high, it blocks the view of neighbors. Or maybe you forget to lock up. Forty percent of home invasions happen because people simply don't lock their doors and windows. The list goes on and on. To help make your home burglar-proof, see your Allstate agent.

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Amy Summa

Political scientist James Q. Wilson
"You thus provide an opportunity for all Americans to project onto the federal government all of our concerns, fears, demands and wants."

"It is generally understood that 'the government,' and it can only mean one government, the government in Washington, is insensitive or out of touch with people if it does not do something. The question is never raised, 'What is the appropriate level of action?' The assumption is that the government should do it, and indeed the President must have a policy on this question.

"You thus provide an opportunity for all Americans to project onto the federal government all of our concerns, fears, demands and wants.

"Since we are talking about politics, we [those who demand federal action] don't have to put our money where our mouth is. The political system never has a system, never has a constraint that requires it to think through tradeoffs, a constraint akin to the profit motive."

Big old corporations like General Motors Corp. or International Busi-

ness Machines cut staff when they finally recognize they have limited resources. The federal government does not. The politicians simply keep adding staff and spending money in order to appear to be tackling a problem. Then they blame the bureaucracy for failing to do so.

What's to be done? "I think it is virtually impossible to cut any agency that provides in a politically visible way the appearance, if not the reality, of serving a highly valued public goal," Wilson says.

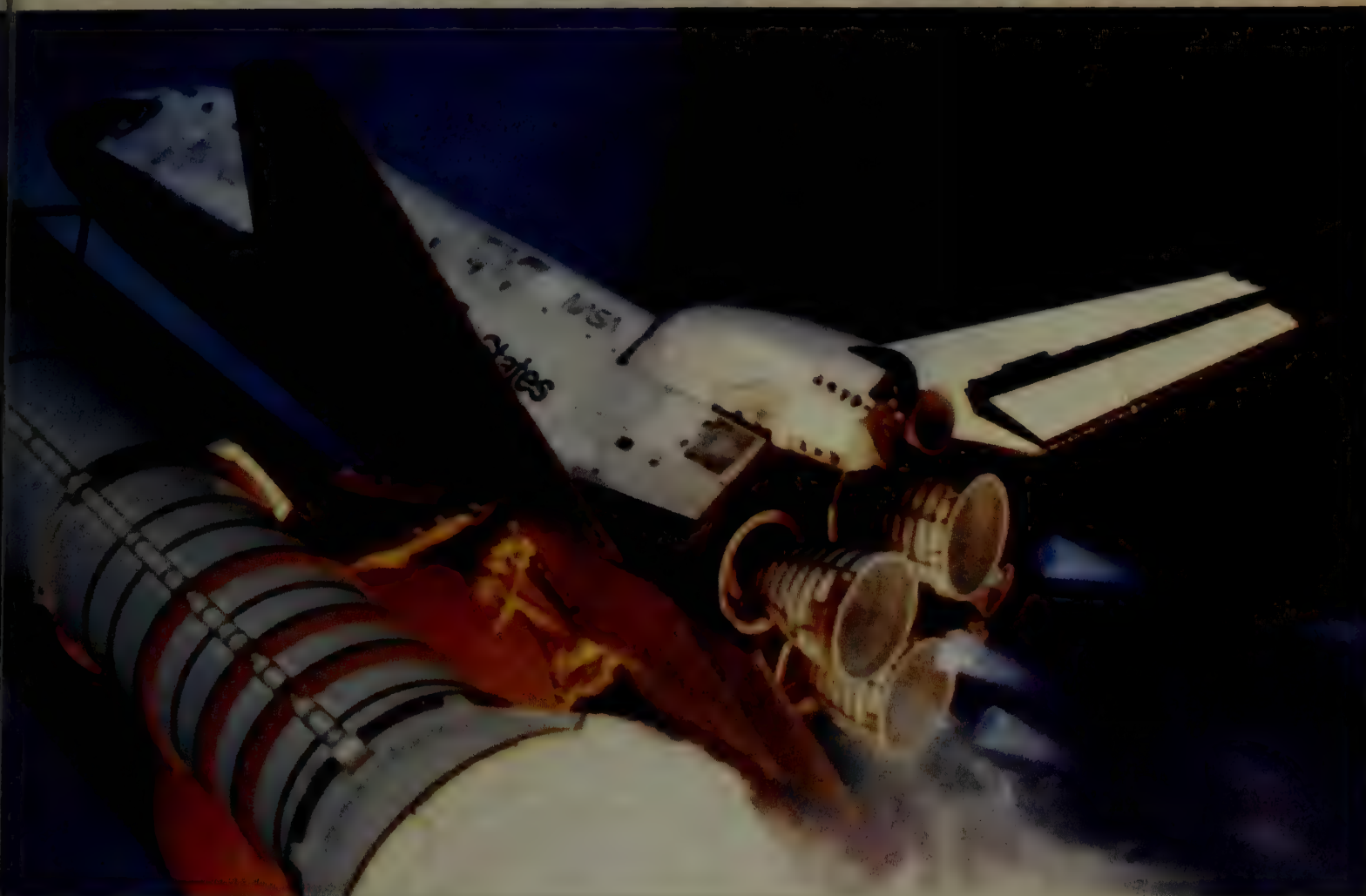
"I am frankly skeptical of there being any correlation between the size of the Justice Department and the efficacy of the federal government's war on crime. I know for a fact, having studied it in person, that there is not much relationship between the number of police officers and the magnitude of the crime problem. But crime is politically visible. And the government must 'do something' about it."

Or worse, the government simply transfers the costs to the private sector by fiat, as it has done by mandating access for the handicapped. Ordering private business to do something rather than having the government do it has both advantages and disadvantages, Wilson points out. "You get ramps built faster, they are better looking, and they are built by cost-conscious people. The minuses are that since the government is not paying the costs, it ordered the ramps everywhere, whether or not they are needed."

Wilson is not entirely discouraged. He says: "I'm optimistic about it because the system has enormous capacity for self-correction." But before the self-correction can really take hold, he adds, people must grasp a simple truth, which they have not yet grasped:

"You can have less bureaucracy only if you have less government." ■

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Rockwell International

As it has throughout U.S. industry, fast change has come to Madison Avenue. The giant, integrated ad agencies face a difficult future.

Teaching elephants to dance

"THIS HAS turned out to be a very tricky business, honey, and a lot of tricky angles to it." That's what Gregory Peck tells his wife after his first brush with Madison Avenue in the legendary 1956 movie *Man in the Gray Flannel Suit*.

Not half as tricky as it is today. In many ways Madison Avenue is fighting for survival amid bewildering change. That man in the gray flannel suit has long since become obsolete.

The days of big, integrated agencies acting as the undisputed mon-

archs of marketing are fast coming to an end. Like many institutions in our society, the traditional ad agency became unwieldy and rigid and inefficient. Inevitably, many clients are doing things themselves that formerly they depended on agencies for. Take Heineken. For a recent ad campaign in the Caribbean and Latin America, the big brewer tapped two independent Miami-based filmmakers to do the job rather than use any of the 20

or so agencies it retains around the world as middlemen.

Why? At a big agency, the tab for the campaign might have topped \$7 million. But the duo at Upmarket/Illustra Films brought it in for less than a third of that. "I wanted to stay away from big agencies with lots of overhead and more interest in the money to be earned than in doing good work," says Marinus Weststrate, Heineken's advertising manager for the Western Hemisphere.

In mid-February Coca-Cola blanketed the airwaves with 15 of the 26 new commercials in its upcoming ad campaign. The work was billed as a "collaborative" effort between agency McCann-Erickson, which had held a tight grip on Coke's advertising since 1955, and Michael Ovitz's potent Creative Artists Agency. Collaboration? CAA created 24 of the 26 spots. Shortly after a preview of the Coke commercials, McCann's Gordon Bowen, tapped 18 months ago to breathe new life into Coke's ads, abruptly resigned.

"This represents something of a paradigm shift," says Peter Sealey, Coke's senior vice president for global marketing. That's a mouthful; it means that Coke's commercials are becoming more like entertainment and less like traditional commercials.

For one of Coke's new commercials, a spaceship captain unmasks a



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A way of doing business

alien by giving the crew a Coke trivia test. The spot is directed by CAA client Richard Donner (*Lethal Weapon*).

"Donner produced this with a crew you otherwise couldn't hire," says Coke's Sealey. "This ad could not have been created in a linear manner." Translation: by a traditional ad agency. Adds Sealey: "The agency business will have to change."

For decades, the agencies were the high priests of marketing, regarded by many clients as creating arcane stuff beyond their comprehension. That's changing fast. In a recent survey by the American Association of Advertising Agencies, the industry's trade group, 85% of clients said they don't trust their agencies to coordinate integrated marketing. This means the almost conjugal bonds that used to link clients and agencies are breaking down. "We're de-linking the traditional relationship," says Gary Moss, vice president of marketing communications at Campbell Soup Co. "We expect ideas from agencies, but if they come from other sources, that's okay, too."

For a recent campaign for its Black Top basketball shoe, for example, Reebok dealt not with one agency but with four different shops. It tapped Chiat/Day for advertising, a sales promotion agency to run local tournaments, a design firm for point-of-sale materials and an outside media-buying service. "The agency used to do [all] that, but we're taking over," says David Ropes, vice president of marketing services at Reebok, a recently created position.

Part of the client rebellion can be traced to the commissions that have been a part of the business since the 19th century, when agencies started out as independent space salesmen for newspapers. They sold space, collecting a 15% commission, and later branched out to help with the writing and designing of the ads they sold. Today agencies accounting for 80% of the country's ad volume are still on some sort of commission system—charging clients about 5% for media placed and 10% for other services.

That gives agencies windfalls in an era when Super Bowl commercials

cost about \$1.7 million a minute. It has been a kind of cost-plus business, where the agencies had a stake in getting maximum spending from the client. "We are historically cursed by the fact that we made money based on how much we spent on media," says John O'Toole, president of the American Association of Advertising Agencies and former head of giant agency Foote, Cone & Belding. "Until we can free ourselves completely from this kind of payment, we're going to have a very tough job."

Over the past five years—during which there has been a bloodbath in the advertising business—big agency

what is happening. They have tried to fight back. Realizing that marketers wanted more than just traditional advertising, Madison Avenue went on a buying binge in the Eighties to bring sales promotions, direct mail, public relations and special events expertise under one roof. Ogilvy & Mather, for instance, bought the Adams & Rinehart public relations firm and A. Eicoff & Co., maker of infomercials. It then set out to keep client dollars from straying by offering a full range of marketing services—O&M grandly touted its Chinese menu approach as "orchestration." Similar buzzwords abounded—Young & Rubicam called its version the "whole egg."

But the egg-and-orchestra pitches didn't really work. "There was a perception [among clients] that we were just trying to sell the whole store," says G. Kelly O'Dea, president of client services at Ogilvy & Mather Worldwide. "We overestimated the number of clients who need all these things under one roof."

No surprise, then, that the big agencies are doing what big companies in other fields have been doing: trying to break themselves up into smaller, more entrepreneurial units.

In January Ogilvy & Mather launched "guerrilla" units for its 15 top clients, each headed by an account supervisor and a direct-response specialist. "We're trying to give our clients a small-size agency feel," says O'Dea.

To accommodate its estimated \$130 million GTE account, DDB Needham Worldwide, another global advertising giant, recently created Focus GTE, a separate agency-within-an-agency. Focus GTE comprises an amalgam of DDB Needham's advertising and nonadvertising services, which it aims to weave together into a package for GTE.

Some agencies will make the transition successfully. But others won't. "The bigger you are, the tougher it is to change," concedes O&M's O'Dea. "You can't expect everybody to tack upwind like a dinghy." Adds Campbell Soup's Moss: "You can teach an elephant to dance, but the likelihood of its stepping on your toes is very high."

—J.L. ■

Laura Cornell



pretax profit margins have held steady at around 11%. But those margins are being propped up in part by hiring cheaper workers in the media department, where salaries have dropped sharply as a percentage of total agency payroll costs. This at a time when media-buying is becoming increasingly sophisticated, what with the fragmenting of markets and the proliferation of special interest publications and special interest cable TV.

Which is why some clients are farming out their media-buying to specialty shops. BMW just picked Boston's Mullen Advertising to create its ads, but tapped DeWitt Media to choose where its \$80 million ad budget is spent. In 1987 only 7% of advertisers used an outside buying service for some portion of their budgets. Last year 21% did.

The big agencies are well aware of

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Can you build a big business on a regulatory loophole? Michael Goldberg is trying.

Loophole, Inc.

By Roula Khalaf

IN LESS THAN three years Michael Goldberg has built Newport Beach, Calif.-based RX Medical Services Corp. from virtually nothing into a medical laboratories company with about \$14 million in revenues, up from only \$3 million the year before. "I'm just so proud, I'm almost delirious at what we've achieved," he says. The delirium has spread to the stock

market, where the little company's shares sell for 5¼, achieving an American Stock Exchange market capitalization of \$60 million—more than four times revenues.

All this enthusiasm rests on a precarious base. For RX, which started out as a 37-cent-a-share outfit on the pink sheets, has been built on a loophole in a federal law that became

effective last year. The law prohibits Medicare reimbursements to medical labs for patients referred by physicians who hold an ownership stake.

But Medicare reimbursements can be made to publicly traded labs that have lots of doctor shareholders—provided the company has at least \$100 million in assets. Which is why Goldberg has been acquiring assets as fast as he can in order to reach the required size. The 43-year-old former Philadelphia assistant district attorney, who specialized in prosecuting white-collar criminals, says: "I was trying to find my way into the deal business. This was my deal."

Unfortunately for Goldberg's deal, the Health Care Financing Administration, which regulates Medicare payments, is about to issue formal rules defining what assets can be included in the \$100 million calculation. The proposal specifically excludes any assets "obtained primarily to meet" the \$100 million threshold, says the HCFA.

That could close Goldberg's loophole. To achieve the required size, he pulled a fancy deal. In the fall of 1991, with only \$26 million of assets on his balance sheet and virtually no cash, Goldberg entered into a convoluted transaction with a unit of Ohio's BancOne by which RX acquired \$77 million of computer leases. Goldberg didn't have to put out much cash: The lease income would go directly to pay off the purchase.

With a stroke of the pen, Goldberg thought he had his \$100 million. His auditor, Ernst & Young, however, barred him from booking the assets on his balance sheet. In an SEC filing, the accountants say the transaction lacked "sufficient economic substance." Why? Because all the cash from lease payments were to go to the seller.

Since then, Goldberg has replaced



RX Medical Services' Michael Goldberg

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Ernst & Young. His law firm, Chicago's Ross & Hardies, told FORBES it believes Ernst & Young's treatment of the transaction was wrong. Goldberg convinced Laidlaw Holdings, a New York investment firm, to place \$2.2 million of RX stock with its clients last fall.

Goldberg insists to FORBES that he didn't buy the leases with the idea of beating the federal requirement: "We're in the leasing business and we always intended to be in the leasing business."

Maybe the government will buy that argument, maybe it won't. RX could be in trouble on physician ownership as well. HCFA says that labs cannot be reimbursed if referring physicians sell their stakes in labs for stock in the acquiring company. That stock must be purchased by physicians on terms available to the general public. Goldberg and his lawyers say they'll challenge the government on this.

Goldberg has been hedging his bets by buying a series of independent labs. But there could be problems here, too. In late 1991 Goldberg acquired five Florida labs in which some physicians still have indirect interests. The HCFA bureaucrats say such arrangements may also disqualify the labs from Medicare reimbursements.

There's a lot at stake here for RX. If the regulators find it doesn't qualify for an exemption, a large chunk of its Medicare reimbursements to labs bought from physicians—which last year totaled about \$2 million—would stop immediately. That would cut into the company's 1992 earnings, expected to be around \$1 million. Moreover, a new bill introduced in Congress this year seeks to bar reimbursement by private insurers as well as Medicare and extends the ban beyond clinical labs to physician-owned imaging centers.

Sure that he is well over the \$100 million level, Goldberg has been busily shopping for imaging clinics. He bought one physician-owned center last summer that brings in \$3 million in annual revenues. Following his earlier pattern, Goldberg issued RX stock to the physician-owners.

Give Michael Goldberg credit for a clever idea. But don't forget that his enterprise rests on somewhat shaky foundations. ■

How do you make 76% a year?
By betting on speculative,
expensive stocks in a market that gets
more and more speculative.

A man for all seasons?

By John H. Taylor

WHEN Cedd Moses was 12, his grandmother gave him 100 shares of Marriott. This is how he remembers the events following. He heads for the local library, where his research convinces him that stocks are largely overpriced. This is in the fall of 1972, with the Dow at 1020 and the S&P 500 trading at 18.4 times earnings. Sure enough, the market is about to commence the great crash of 1973-74. Little Cedd sells the Marriott and persuades his mother to open a margin account on his behalf, in order to take a short position in Mattel. The Mattel stock collapses not long thereafter. Cedd Moses is hooked on the stock market.

Fast forward to 1990. By this time Moses has piled up enough trading profits to put himself through college, earn a mechanical engineering degree at UCLA, spend several years as a stockbroker at Los Angeles-based Baraban Securities, and strike out on his own as a money manager in 1989. And he hits another hot streak.

Through his Portfolio Advisory Services Inc., Moses signs up for Money Manager Verified Ratings, a trading contest run out of Beverly Hills by Norman Zadeh. Participants, mostly professional stock pickers, specify an account number at the beginning of the year of at least \$1 million and then send Zadeh brokerage statements each quarter. Zadeh computes quarterly performance numbers and publishes the results. For the period Jan. 1, 1990 to Jan. 1, 1993, Moses leads the pack with a

76% average annual return for his "aggressive" account and 33% on his "conservative growth" accounts.

How did he do it? That's easy to see: Moses buys extremely volatile growth stocks with high price/earnings ratios and switches out at the first sign of weakness in the stock or the fundamentals of the company. That particular strategy works beautifully in a runaway bull market of the sort we have seen in the past two years, when new issues zoom on the first day of trading and technology stocks trading at an outlandish 50 times earnings can easily go to 100 times.

Whether Cedd Moses can keep it up is another matter. Volatile up and volatile down, and Moses, still young at 32, has not been tested in a severe bear market. His money management firm wasn't around during the crash of 1987.

Moses isn't afraid to pay seemingly outlandish prices for stocks if he thinks the price can become even more outlandish. Two of his favorites are Cisco Systems and Wellfleet Communications, both of them fast-growing companies involved in computer networking. They trade, respectively at 48 and 72 times earnings. Not to worry, says Moses: Their sales and earnings are doubling every year, and they are technological leaders in an industry that is still in its infancy.

Other Moses holdings: Danc Group, a maker of spinal implant devices, at 52 times trailing earnings; Sybase, which sells database software at 59 times earnings, and American

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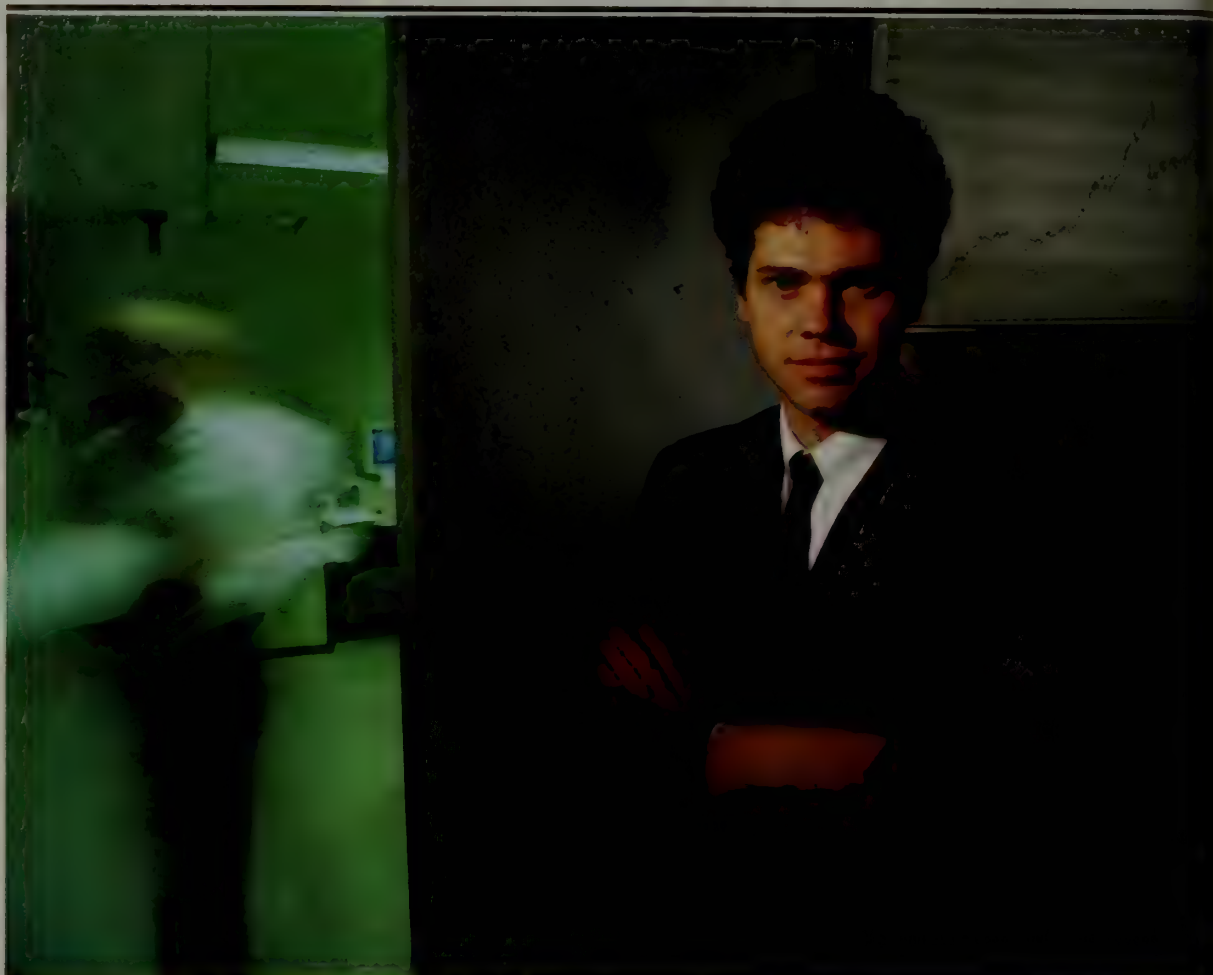
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Money manager

Cedd Moses

Buy: Cisco,
Wellfleet,
Danek and
Sybase.

Short: Novell
and PictureTel.



Barrick Resources, a gold-mining company, at 25 times earnings.

Moses says that, remembering his childhood experience, he won't be decimated in a bear market. In his \$120 million of private accounts Moses takes an occasional short position. Among those he has held recently are PictureTel Corp. and Novell. PictureTel is a videoconferencing company that has been unable to translate increased sales into profits because new competitors are constantly surfacing. Novell sells software for networking personal computers (*FORBES*, Mar. 1). Moses figures it will be damaged by Microsoft's new NT software. He also notes that Novell's quarterly earnings growth has been falling and there has been a great deal of recent insider selling.

Moses is a firm believer in having just a few eggs in his basket. He typically owns only 10 or 12 stocks at a time, chosen with help from a computer screen that ranks companies by such criteria as five-year growth rate in earnings, liquidity in the stock (the stock must have enough daily volume so Moses can liquidate his entire posi-

tion in one day if necessary), percentage of stock owned by management and debt/equity ratio. He does the same with the shorts, searching for companies with declining earnings per share, excessive stock offerings and too much insider selling.

When one of his hot growth stocks disappoints, Moses exits in a hurry. In mid-December, shares of Ivax, a fast-growing drug company, fell more than five points in a single day on heavy trading. Moses sold his stake that day at a small loss. "We subscribe to the cockroach theory," he says. "If you see one cockroach, more are sure to follow."

What would the young Cedd Moses, so precocious in figuring that stocks were overheated in 1972, say about today's S&P, now trading at a much steeper 25 times earnings? For now, Moses is cautious. A typical aggressive account at Moses' firm has \$300,000 of equity—with \$180,000 of long positions and \$90,000 of short positions—and \$30,000 in American Barrick, the gold-mining company. Moses sees American Barrick as a hedge against the market,

believing gold prices will jump if the market goes through a correction. His more conservative customers have no shorts but are now about 50% in cash.

The key to investing in volatile growth stocks, Moses says, is timing. Veering far from such commonsensical notions as P/Es in his market timing, he has concocted an elaborate model that incorporates 25 mostly technical indexes into timing signals that guide the degree to which he invests and the ratio of short to long investments. The indexes range from weekly advance/decline ratios to 90-day Treasury bill rates, to volume of off-floor trading by New York Stock Exchange members.

Moses' services don't come cheap. He charges clients 0.5% to 2.75% of assets per year, and, of course, also runs up commission charges that go to stockbrokers to the extent they refer business to him. Is Moses worth it? Sorry, it's too soon to tell. We'll have to check up on him after the next crash before pronouncing him another Peter Lynch. But for now the results speak for themselves. ■



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K-tel International has had its ups and downs. It's now on another roll, thanks to the Europeans' love of American gadgets.

Veg-O-Matic does Europe

By Christopher Palmeri

"PEOPLE LOVE a gimmick," says Philip Kives, the 63-year-old founder and chairman of K-tel International. "It was that way 20 years ago; it'll be that way 20 years from now."

Kives should know. He's spent the last 31 years hawking gimmicks on TV. His merchandising technique: Find consumer products with mass appeal potential, and pitch them in six-week "saturation campaigns" on local television stations. Some K-tel favorites: Fishin' Magician, a combination tackle box and scale; Miracle Brush, a swivel-headed lint remover; and the Salad Queen, a vegetable slicer.

A farmboy from Saskatchewan, Kives got his start hawking knife sets on the boardwalk in Atlantic City in the late 1950s. He started K-tel in 1962, selling Teflon-coated frying pans on television. He quickly expanded into other household gadgets as well as into the music business. In 1970 he packaged a record, *25 Polka Classics*, and marketed it on TV. The disc sold over a million copies. Another K-tel album, *Hooked on Classics*, disco versions of over 100 classical music themes, sold nearly 10 million copies in the late Seventies and early Eighties.

Kives took K-tel public in 1971. Ten years later the company earned over \$5 million on revenues of \$178



Andrew Rietner



K-tel's Philip Kives and Mickey Elfenbein
Disco died, but K-tel lives on.

million. The stock hit 15⅞, and Kives' 48% stake in the firm was worth \$2 million.

But Kives let the money go to his head. He built a plush Minneapolis headquarters, complete with sauna and an indoor racquetball court. He began investing K-tel's money in oil and gas wells and real estate developments in petroleum-dependent cities like Dallas, Houston, Denver and Edmonton. "It was the thing to do in those days," says Kives.

In the early 1980s the oil and gas and real estate investments collapsed, costing K-tel some \$30 million. Disco

died, too, taking with it a huge chunk of K-tel's record sales. Worse, record companies had gotten ten hip to K-tel's marketing game and began competing with Kives by producing greatest-hit packages of their own. By 1984 the company was in bankruptcy court.

Creditors got as little as 10 cents on the dollar for their claims, including stock in a new, slimmer K-tel. Kives himself put in \$3.7 million in cash to keep it afloat and remain its controlling stockholder.

Over the next half-dozen years, K-tel survived by cranking out low-priced record collections like *Rap: Straight Outta the Ghetto* and *Country Music Classics*.

This time, rather than spend money on expensive television advertising time, Kives promoted his albums with point-of-purchase displays at record and discount store chains.

Four years ago Kives revived his gadget business, bringing back the venerable Veg-O-Matic slicer and dicer, a device originally marketed by archrival Ron Popeil's Ronco Inc. But if you haven't seen K-tel's 30-second Veg-O-Matic commercials lately, there's a reason. Kives has largely abandoned U.S. television in favor of greener pastures in Europe.

That's right. Such quintessential American products as Power Driver, high-powered screwdriver, Lustre car wax and Thigh Toner have, under

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Kives' shrewd handling, become hits among French, Spanish and German consumers. How? Two reasons: For one, there are still only a few local television stations in each country, so K-tel's advertising reaches broader audiences. And, whereas in the U.S. K-tel advertised its products on TV and sold them through Woolworth, Walgreen's and other discount stores, in Europe it sells most of its wares directly by taking orders over the telephone. That way it captures the full retail markup.

These days the little company is solidly back in the black. In fiscal 1992 (ended last June 30) K-tel earned \$1.9 million, or 50 cents a share, on sales of \$48 million. Over two-thirds of its sales were made in Europe.

K-tel's financial trouble forced Kives to sell the posh headquarters building; he now operates from nondescript offices in a Minneapolis industrial park. Other costs, too, have been slashed to the bone. Kives' nephew and 23-year K-tel veteran, Mickey Elfenbein, makes this clear when he shows a visitor some of the company's latest television ads, which are now translated into half a dozen languages.

"That's Phil's hand," says Elfenbein, as a pair of K-tel's industrial-strength Power Cutter scissors goes to work on some carpeting, a piece of steel cable and a chicken wing. "That's his backyard," Elfenbein points out, as a comely brunette goes about her workout with a K-tel Thigh Toner.

With K-tel's stock recently selling for 4¼ a share, Kives' stake in the company is worth \$10 million. Though Kives now spends most of his time at home in Winnipeg, FORBES reached him recently at K-tel's office in Madrid. Kives gushed about a long-term advertising deal he had just signed with Channel 3, one of Spain's largest television stations.

"I've learned to focus on what I do best—finding products, writing scripts, talking to TV people," Kives bubbled. "We're going to make a lot of money here."

If Phil Kives can sell Veg-O-Matics to the French, what American products can't be marketed successfully overseas?

Demonstrating underwater survival gear nearly killed Brian Zientek, but that turned out to be pretty tame compared with designing swimsuits for young women.

Thrill seeker

By Elizabeth Comte

TEN YEARS AGO Brian Zientek nearly died on the job. The executive vice president of Fitzwright Co., Ltd., a small Vancouver, B.C.-based maker of underwater survival gear, Zientek was also a skilled diver who regularly demonstrated his company's products. In the course of a demonstration in frigid waters off the coast of southern Chile in April 1983, Zientek nearly drowned when giant swells dragged him away from the boat. He survived only because crewmen were able to pull him in with a safety line.

"Did I think I was going to die?" says Zientek, now 41. "Yes, I did."

Though Zientek insists he wasn't put off by the hazardous duty, he started looking for a new line of work a year later when Fitzwright was sold. With \$100,000, pocketed from the sale of his 5% stake, he went searching for a company to buy. Among those he considered: a maker of life rafts, a wetsuit company, a producer of mountain climbing gear and a company that made clothing for surfers.

Finally, after two years, Zientek



Beach Patrol's Brian Zientek
"This is adventurous enough."



THIS COMPANY CAN OVERHAUL JET AIRCRAFT. BUT IT COULDN'T GET A RETIREMENT PLAN TO FLY.

The employees at Bizjet International, one of the Tulsa-based Hardesty Companies, had a profit-sharing retirement plan. But employee enthusiasm for the plan was low.

"We were convinced our employees would be interested in the benefits of a 401(k), but we didn't have the time or the means to administer one. Wausau's 401(k) answered our concerns," says Roger Hardesty, Founder and President of The Hardesty Companies, including Bizjet, a jet aircraft remanufacturer.

The plan was so well received, in fact, that Mr. Hardesty switched all his companies to the 401(k) plan. It was up to Wausau to explain the benefits and help enroll the employees.

Wausau handles the administration and paperwork, helps with employee enrollment, reports to employees on performance of The Hardesty Companies' 401(k).

"Wausau had to understand the diverse audience they were speaking to and the individual needs of each employee. I didn't go out and try to sell our employees on the benefits; Wausau did that. As a result, employee acceptance of the 401(k) program company-wide is tremendous."

The Hardesty Companies wanted a retirement plan their employees would be enthused about. With a Wausau administered 401(k), it took off.



found a company that was affordable and looked as if it could be turned around: Los Angeles-based Daffy of California, Inc., an ailing maker of women's swimsuits. Its manufacturing costs and pricing were so far out of whack that it lost \$1.5 million on sales of \$6.5 million in 1986, the year before Zientek found it.

But Zientek saw a hidden asset. Daffy enjoyed tight relationships with buyers at big retailers like R.H. Macy & Co. and Bloomingdale's. Zientek, who earned an associate degree in

Zientek also convinced three Daffy employees—the designer, the product manager and the sales manager—to stay and buy 14% of Beach Patrol for \$70,000. For his 25% stake, Zientek cashed in his IRA, worth \$17,000 after taxes; borrowed \$18,000 from his father; sold his wife's Toyota for \$4,000; and took a \$7,000 cash advance on his American Express platinum card. Western Glove also guaranteed a \$79,000 bank loan.

In his first season out, Zientek raised prices on the company's swim-

ing again—this time in red ink.

Necessity provoked a very bright idea. Rather than letting the store buyers determine which styles he produced, he began setting up focus groups with his customers—high school and college girls in places like Los Angeles, Florida and Hawaii.

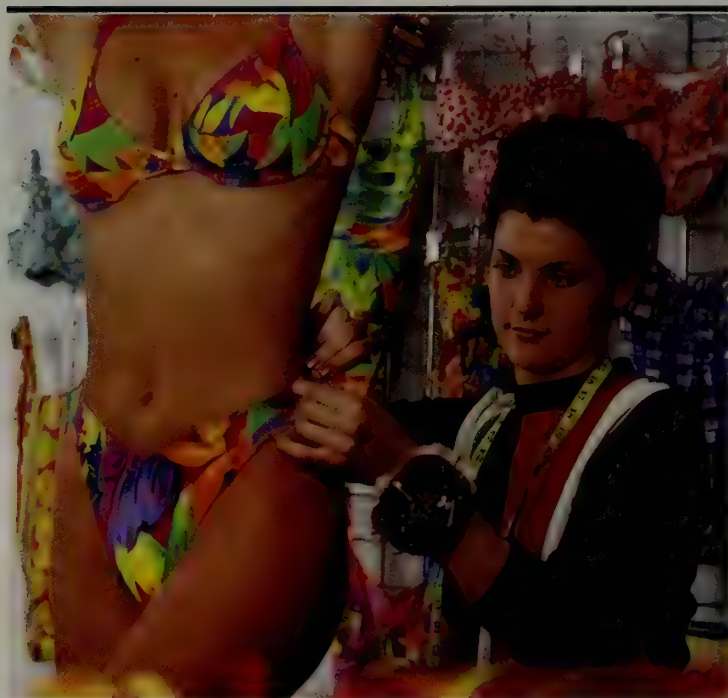
In exchange for T shirts and a few sodas, the young women fill out questionnaires about their favorite styles and colors. Beach Patrol's designer then focus production on the most desirable new styles. Zientek shares the market research with the store buyers, who often find it persuasive.

But that still left concerns about fit. "If a suit squashes your breasts or rides up on your butt," Zientek acknowledges, "that's death in the swimsuit business." To overcome this obstacle, Zientek told his designers to fine-tune the fit of the suits on live models after the suits were made.

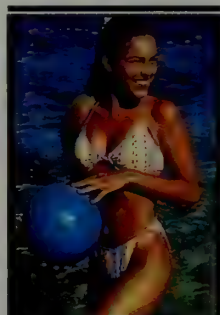
One more hurdle: the high production costs and erratic quality that have bedeviled the previous owner. Here Zientek made three key changes. First, he reduced the number of sewing contractors to 4 from 11; this allowed him to place Beach Patrol's own quality control person in each shop. Second, Zientek reduced the number of fabric suppliers to 8 from 16 in order to standardize the swimsuits' materials. Finally, he moved up the entire production and shipment calendar by 60 days, to get the suits—Beach Patrol now produces five lines targeting young teens through women in their 50s—to the stores and into the hands of the consumer earlier.

All these moves bore fruit in fiscal 1992 (ended June 30), when Beach Patrol grossed \$29.6 million and netted nearly \$700,000. What about the outstanding note to the company's previous owner? Last year Zientek settled the note ahead of schedule, paying the seller \$615,000 in cash.

Zientek says he doesn't miss the excitement of his days demonstrating marine survival gear. He gets a different kind of kick racing his 1972 fiberglass Volkswagen in the desert of Baja California in his spare time. But his biggest thrills come from trying to guess how young women want to drape their bodies. "This," he says of his swimsuit business, "is adventurous enough."



Philip Saltonstall



Fine-tuning a bikini; Beach Patrol suits

"If a suit squashes your breasts, that's death in the swimsuit business."

production and finance from New York City's Fashion Institute of Technology, decided that if he could straighten out the production problems and build some volume, the operating leverage in the company would make him rich.

Here's how Zientek bought Daffy, which he quickly renamed Beach Patrol Inc.: He gave the seller \$90,000 in cash and a note promising 100% of Beach Patrol's net profit in the fifth year after the acquisition.

There was a snag. Zientek was out of money. To swing the deal, he turned to an old friend from the rag trade, Ronald Stern, chairman of Western Glove Works Ltd., one of the largest blue jean makers in Canada. Stern's company put up \$305,000 cash for 61% of Beach Patrol's equity.

suits, a wholesome-looking line targeted at teenage girls. Customers didn't bat an eye at the higher prices, and in its first year with Zientek at the helm, Beach Patrol broke into the black on sales of \$8.5 million. Encouraged, he set out to expand.

That's when Zientek found himself back in treacherous waters. In the spring of 1988 he added a sophisticated line for 30-to-40-year-olds. Zientek would make up several different samples, then let the retailers' buyers decide which styles they wanted. This helped Zientek stretch his working capital dollars further.

But buyers aren't omniscient. Many of the suits they chose failed to sell. On top of that, Beach Patrol's new line didn't fit well. Zientek had to act quickly or else find himself drown-

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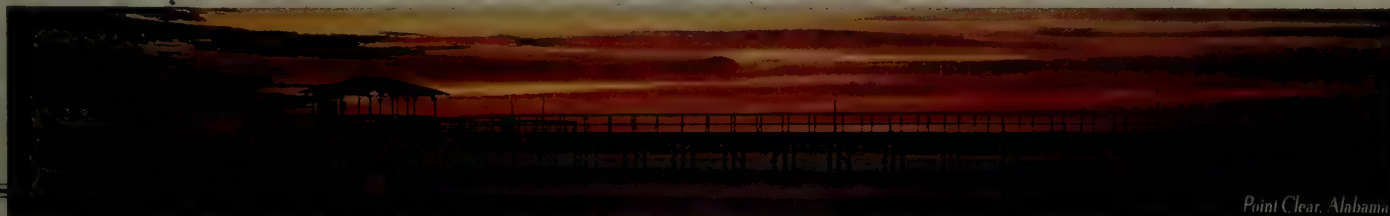
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There are ordinary personal computer users, there are serious users and then there are users who go off the deep end. Are you a computer widow or widower?

Superduperitis

By David C. Churbuck

TRIPP LILLEY, a sophomore at Virginia Tech, doesn't just have an Aberdeen 486 computer in his off-campus apartment, he has a computer network. The network connects Lilley's machine with a Mylex 486 belonging to his roommate and with a used TRS-80 Model 100 he has installed in the kitchen "for reading E-mail and newsfeeds over orange juice in the morning."

The system is not quite powerful enough, Lilley has decided. He says he needs another 112 megabytes of chip memory and an upgrade to a hard disk with space for a gigabyte of files. Lilley is also saving money from a part-time job in order to buy a \$300 bar-code reader, so he can scan food packages as he puts them in the freezer. Then he can dial his apartment computer from the campus computer center before deciding whether to hit the nearby Pizza Hut or walk home for lunch.

Lilley rationalizes all this equipment as being a useful background for an engineering major who will proba-

bly use computers in his career. Maybe so, but what we see here looks an awful lot like an incipient case of Geek Syndrome. Victims of this affliction start out with a basic computer purchase, then feel they have to trade up to something faster, and then have to buy again and again each time a new generation of microprocessor or hard disk comes out.

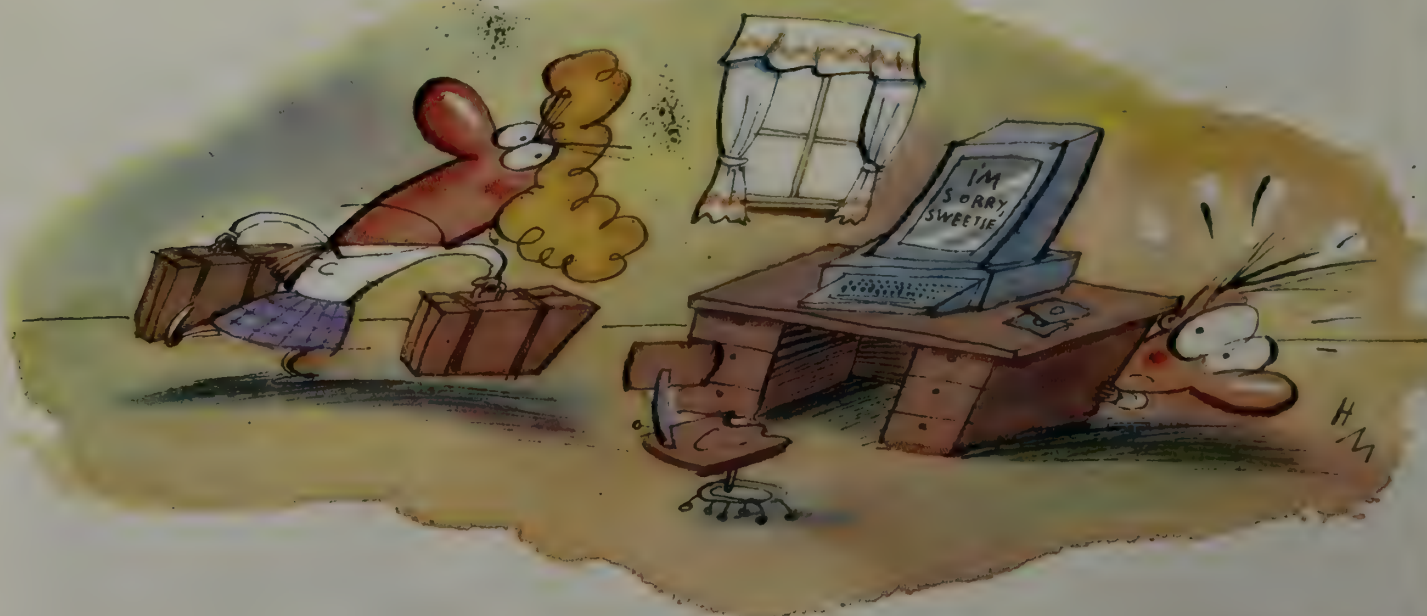
James Gordon Upton, 69, a former Manhattan advertising and marketing executive now retired to a farm in Bedford, N.H., bought his first computer four years ago. Today he has a custom-built 486SX computer that clocks at 25 megahertz and has a Zoom Telephonics interval modem running at 9,600 bits per second. Upton spends up to two hours a day in front of the box. His passion is playing Links 386 Pro computer golf against prerecorded players contained in the software. You don't need a lot of iron to run that software, but just in case, Upton has two printers, a scanner (a Logitech, costing around \$200) and, for playing digitized sound, a \$180

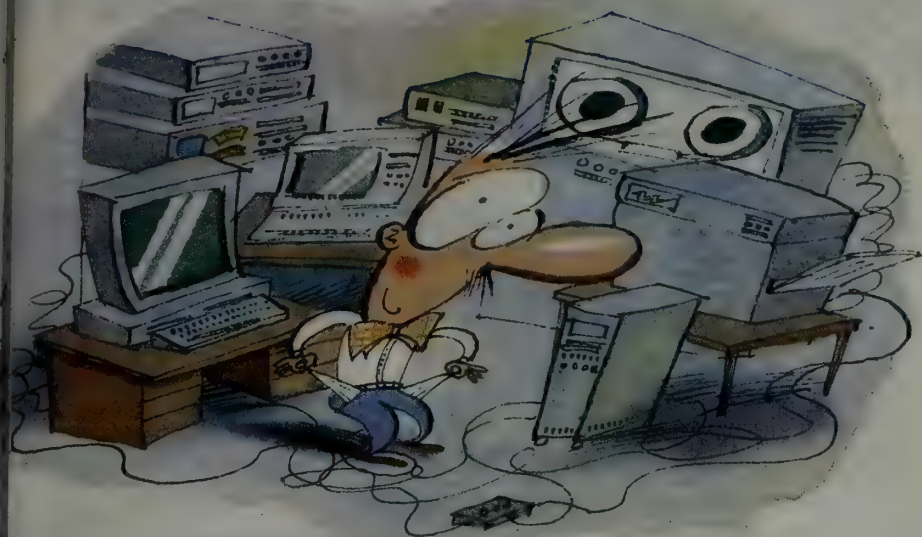
Sound Blaster sound board.

Still not enough. Upton is now thinking of moving into multimedia which would, of course, mean buying at least one compact disk reader for \$400 and adding on a 24-bit color video capture board (\$600) so he can edit his home videos and capture still images from the tube.

"These are very seductive tools like sports cars," says Russell Walters, 45, author of *The Secret Guide to Computers* and a computer consultant in Somerville, Mass., who has witnessed PC addictions firsthand. "Most people can get what they need from a computer for \$1,000. But if you spend just a little bit more you get much more power, and a little more leads to a little more power. . . ."

Walter has 45 computers in his home, most of them stacked in foot-high piles on the living room floor. But the bedroom, he says, where he puts his "emotional" equipment, by which he means hardware that makes sounds. That's where his five music synthesizers are, includ-





Roland Jupiter-6, which he plans hook up to a Synergy 386 computer and a sound card.

Valter explains the addiction: "It's drugs. To support your habit you tell others, and get into the industry yourself. You write programs and give them away, a pusher encouraging others to become users."

That's how retired adman Upton is hooked. His supplier is a self-employed cabinetmaker who developed an expensive taste for electronics and set up shop as a computer consultant in order to pay for it.

Penn Jillette, 38, the loquacious half of the demented comic magic act Penn & Teller, has been a PC fanatic since 1985, when he talked a young hacker into showing him the ropes in exchange for free tickets and lunch. Now the compulsive carrier of a 6SX Toshiba T4400C notebook (with color screen and 20 megabytes of RAM and 120-meg hard drive for \$7,000), Jillette says he gets the same charge from computers that his artist friends get from their paints. "The glow of the screen makes me happy," says Jillette, who advocates painting hot-rod flames on the side of his computers.

Do you have a problem with home computers? Are they taking over your life? You know you are in trouble if you buy a \$200 sound board just so you can get your computer to say the name rather than display it, or if you buy a \$600 video board so you can watch television on your monitor.

Another danger sign is practicing what the geeks call homebrewing—

manufacturing your own personal computers for the thrill of it. Paul Matthews, 37, a Boston-area computer consultant, is a brewer. He combed flea markets and computer magazine ads for the parts to build a custom 486 PC on his kitchen table. But Matthews' obsession is virtual



reality. The ultimate in computer interfaces, these three-dimensional immersion systems cost lots of money when bought off-the-shelf. So Matthews is making do. He is rewiring and programming a Mattel Power Glove, a kids' videogame accessory, to substitute for an \$8,800 VPL Research Dataglove, the Spandex and fiber-optic glove used in commercial virtual reality systems.

On-line benders are something to watch for, especially if you are using a service like CompuServe's message

board that bills for every minute of connect time. "On-line services can be a serious problem to some people. They should be controlled substances," says Thomas Mandel, a futurist at SRI International in Menlo Park, Calif. and a recovered on-liner.

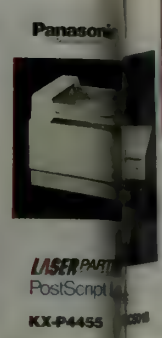
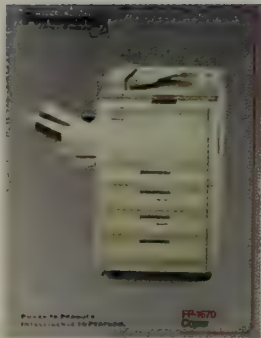
Kamal Singh, 28, a systems analyst at Lehman Brothers in New York City, has three computers in his apartment, including a Sun Sparcstation workstation running Unix (\$11,000 with 32 megabytes of memory and a 400-meg hard drive). Between them and his workstation at work, he spends 16 hours a day, six days a week in front of a screen. "My wife says it is my first wife," he says. She might have left him by now, he jokes, except that he was once able to pull up a key research paper on podiatry for her from Medline, the on-line database available from Dialog Information Services (60 cents per minute).

How bad can it get? A 1987 medical journal article relates the case of an 18-year-old Dane who spent 12 to 16

hours a day at the keyboard. Doctors at Copenhagen's Nordvang Hospital said the young man took on the persona of his computer, saying things like: "Line 10, Go to the bathroom; Line 11, Next."

If you get to this state, get help. Get an Internet account, preferably with a high-speed modem connection, and tap into the Usenet system. A Usenet newsgroup addressable as alt.irc.recovery is a digital encounter session for people addicted to real-time computer conferencing.

THE ONLY NAME YOU NEED TO KNOW IN OFFICE EQUIPMENT.



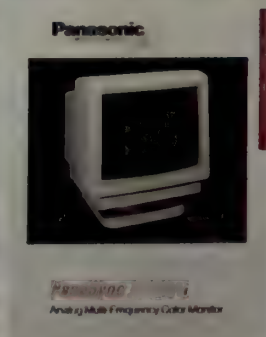
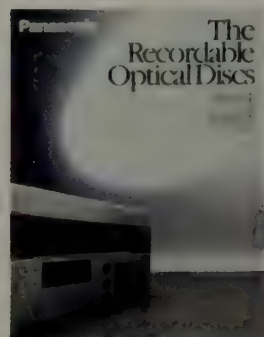
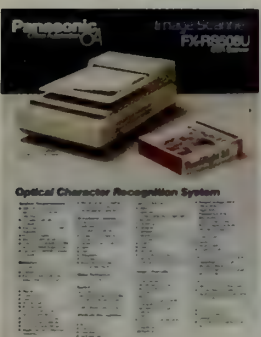
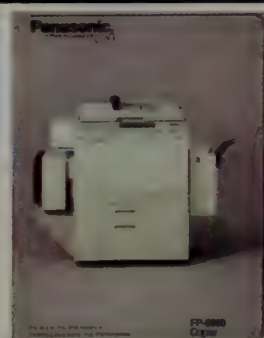
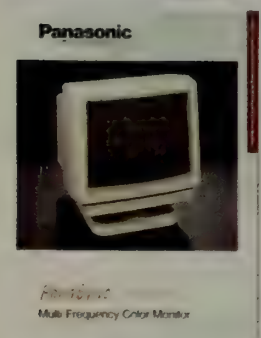
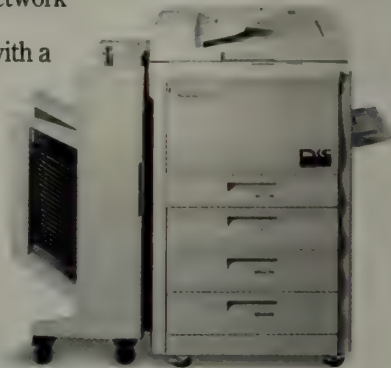
A COPIER THAT INTUITIVELY KNOWS HOW TO MAKE GREAT COPIES FROM ANY KIND OF ORIGINAL.

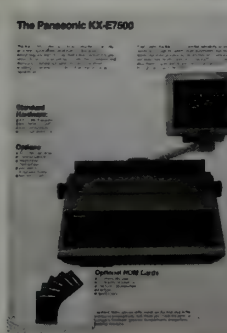
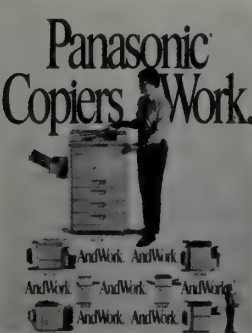
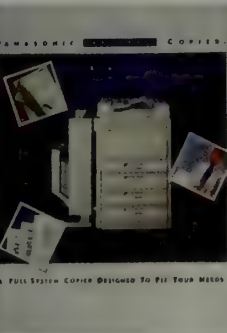
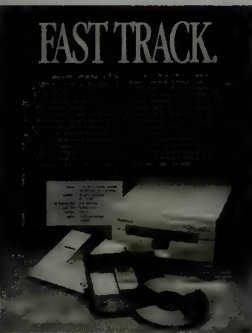
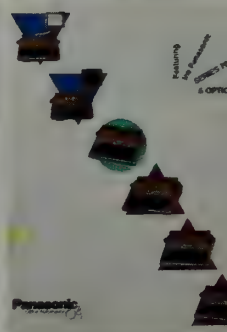
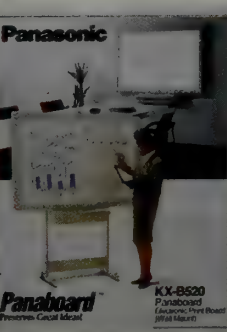
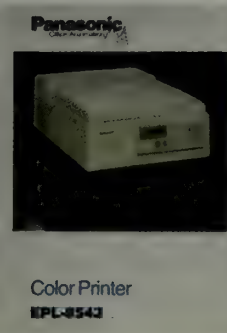
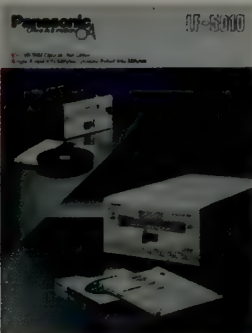
With the new Panasonic® FP-2680 copier, you don't waste time trying to get legible copies of 'difficult' originals—newspapers, photographs, solid blacks, etc. It takes them all right in stride, thanks to the analytical power of its neural network and fuzzy logic.

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Do-it-yourself television

COMMENTARY BY JOSEPH R. GARBER



Joseph R. Garber is a management consultant with A.T. Kearney Inc. in Redwood City, Calif.

IN 1986 Kathryn Schifferle was a 35-year-old commercial artist whose peripatetic career had ranged from preparing design and layouts for regional magazines to doing graphics for the American Embassy in Zaire. Then she got her hands on a personal computer. Now she's chief executive and, together with her husband, John, principal shareholder of Multi-Image Systems, a privately held company that builds and sells a digital impresario-in-a-box called Mediastar.

Here's how she got hooked—and successful. Six years ago the operator of Schifferle's hometown (Chico, Calif.) cable system invited her to visit his back office. He had an advertising problem, and he thought her magazine experience might be helpful.

While most American cable systems are owned by industry goliaths like Tele-Communications Inc., Continental Cablevision and Time Warner, at the community level cable typically is a pocket-size business. Indeed, the average local cable operation has only about 5,000 subscribers.

Such minuscule audiences do not appeal to the Procter & Gambles of the world. Thus many smaller cable networks have banded together into so-called regional interconnects. But on average these comprise a scant 250,000 viewers, still too few to attract the biggest advertisers.

Which means that even the regional interconnects have to depend upon local businesses for ad revenues. This creates yet another problem: Assembling a production crew, finding shooting locales and executing all the other tasks required to turn out a decent television commercial are too expensive for the average appliance merchant. This forces the smaller cable systems to depend on such dreary ad fare as the Used Car Channel or the Real Estate Channel, programmed with tedious hours of cars and houses for sale—with the inevitable elevator music playing in the background.

Standing in the back office of the Chico cable system, Kathy Schifferle took one look at what was going on, and thought to herself that cable advertising need not be amateurish. Her enterprise was born.

After six years of backbreaking work, second mortgages, running personal credit cards over the limit and all of the other joys of high-tech entrepreneurship, Schifferle has a company that helps cable systems offer advertisers quality commercials at a reasonable cost.

Built around an IBM-compatible PC and priced at \$58,000, her top-of-the-line Mediastar system comes loaded with exotic video hardware and 200,000 lines of ingenious software. The buyer gets the ability to create polished-looking display ads—still photographs, colorful backgrounds, text and background audio. With a little extra effort, the user can add animation or excerpts from videotapes. The power of the system is such that a relatively unskilled operator can generate a good-looking video segment in an hour.

Mediastar's capabilities do not stop there. The system also automates the grunt work of assembling, scheduling and airing the advertisements over a cable network. It even handles book-keeping chores. In short, Mediastar is

not merely an ad creation system but robotized network programmer.

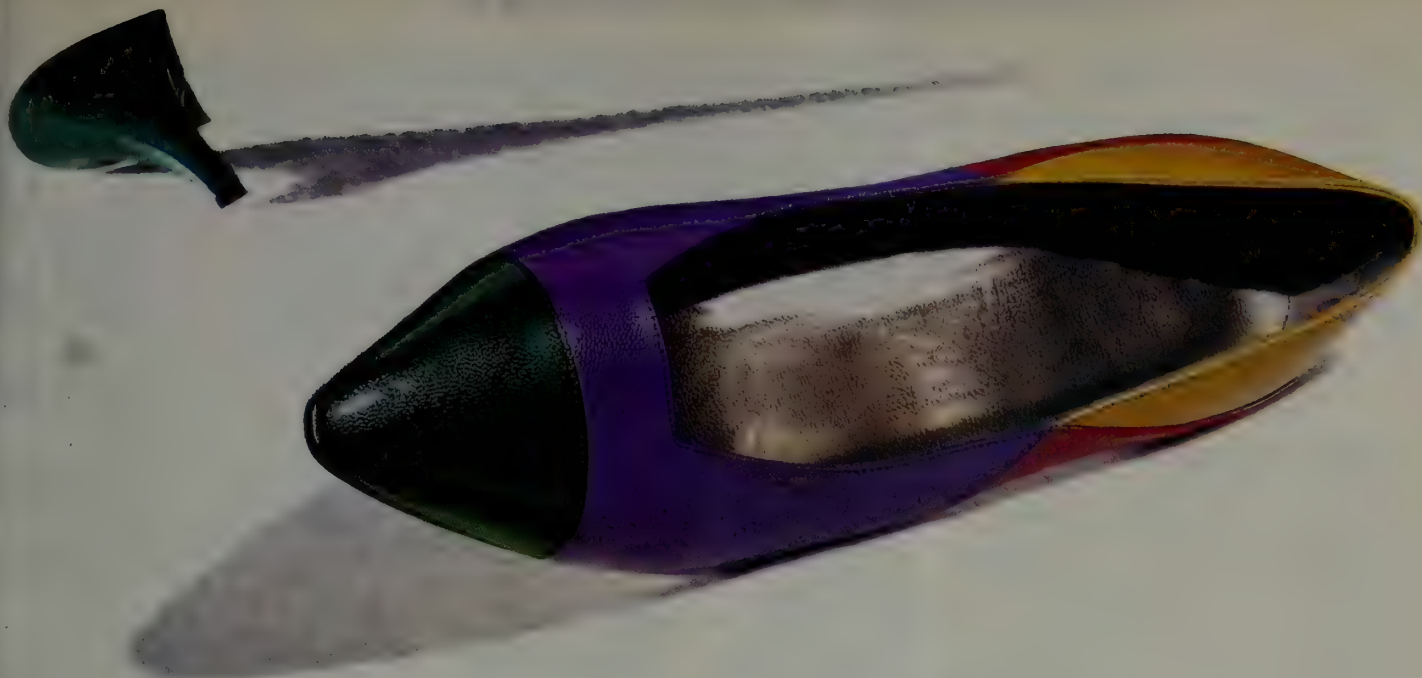
At a cost as low as \$75 a week, small advertisers can enjoy professionally looking 30-second spots aired six times a day. Today Schifferle's company accounts for nine of every ten advertising systems sold to the cable industry. Beyond merely selling boxes, she has created a family of information community video magazines, is developing a video catalog service for the direct mail industry and has one or two other clever ideas in the pipeline.

Cable operators are threatening to expand their systems to deliver 500 channels of video. But what will they show on them? If you were to program all 500 channels with reruns, every prime-time network show ever made and with every American talk show ever filmed, you would run out of inventory in about nine weeks. Where will the programming for 500 video channels come from?

Schifferle's quick answer: Don't even try to come up with 500 channels of feature films and wrestling matches. Instead, treat the extra channels as pages in the classified advertising section of a newspaper. Let every small business advertise on cable, but put on a decent show in doing so.

But beyond mere advertising, Schifferle has begun developing the technology to support a startling new form of television programming. The concept is to let viewers design their own programs. With a modicum of effort, viewers will be able to specify the sorts of information that interest them and the format in which they want to receive it. Every viewer will be his or her own programmer, even consumer a video entrepreneur and every American free at last from the whimsical scheduling practices of the broadcast and cable network owners.

The real video revolution is going to be do-it-yourself television, and Schifferle is one of its architects. ■



Getting to gate 87 in

Traveling on business can be tough. So
we made it easy to get AT&T service.

First, check the sign on any public phone

two minutes isn't always easy.

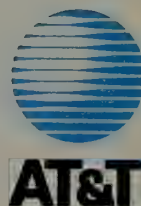
to make sure it's AT&T. If it's not AT&T,
or you dial and don't hear "AT&T" after
the bong, hang up. Then dial 10+ATT+0.

Getting AT&T is.

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business should always be that easy.

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plus the area code and number.



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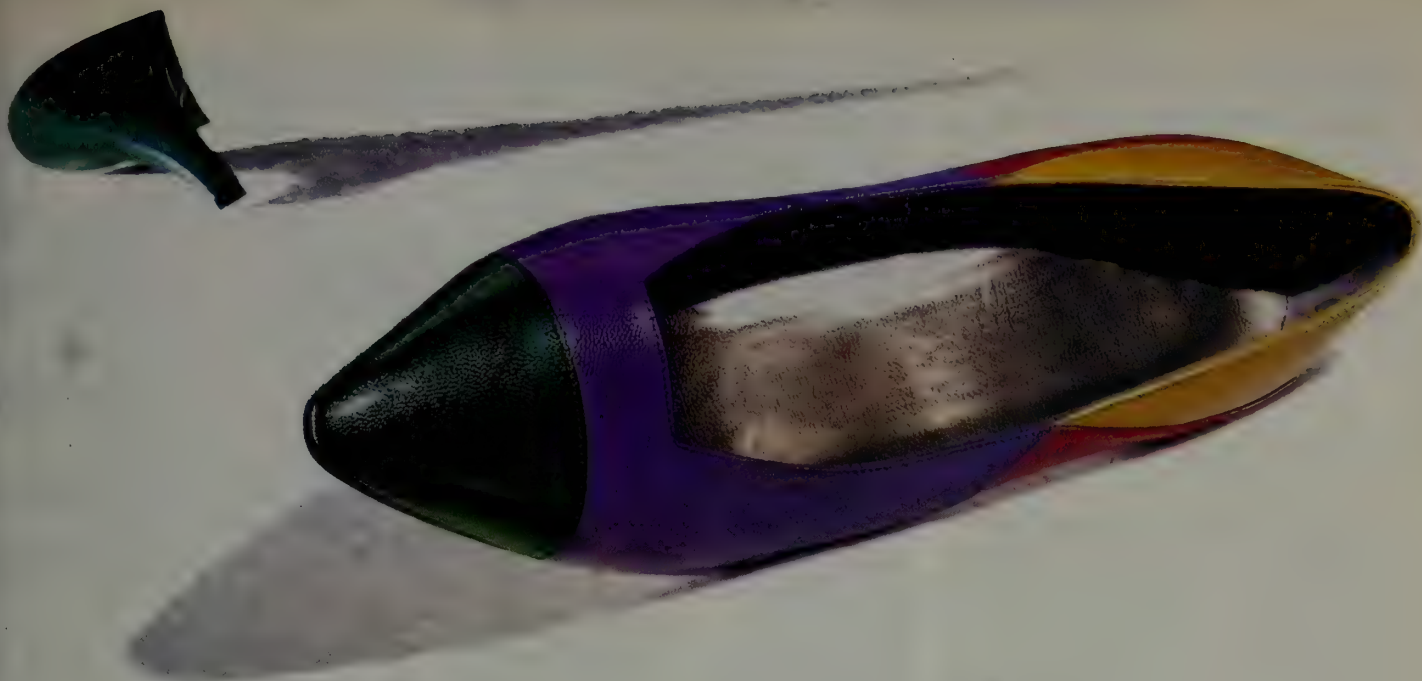
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Getting AT&T is.

You'll get the service you depend on. At
the prices you expect. Getting around on
business should always be that easy.

Dial 10+ATT+0

plus the area code and number.



Subsidies for energy conservation are finding their way into a few lucky pockets. Among the beneficiaries is a very persistent entrepreneur named Peter Shen.

Low-calorie lighting

By Andrew Tanzer and Neil Weinberg

IT'S A CASE of delayed reaction. Twenty years after the first oil embargo, factories and office buildings are getting around to making their lights energy-efficient. The switchover is producing a burst of profits for the folks who make an obscure electrical device called a ballast, which is the control unit inside a fluorescent light fixture.

The energy savings come from replacing old-fashioned magnetic ballasts with transistorized ones—substituting silicon for copper, that is. Demand for the new electronic ballasts is exploding from 1 million units in 1988 to 25 million in 1993, estimates Arthur D. Little. Order backlogs have stretched to six months, and manufacturers are cleaning up.

Who reaps the bonanza? Two Los Angeles-based companies, MagneTek, Inc. and Electronic Ballast Technology, Inc., dominate production of electronic ballasts, each with a third of a market totaling \$278 million last year and something like \$450 million this year.

MagneTek is a former Litton Industries division that went public in 1989. Its stock price has nearly doubled in the past year, to 22%. The winner at Electronic Ballast Technology is Peter Shen, 52, a Chinese-born entrepreneur who took control of the firm in 1982 and spent years trying to get lighting industry executives to take him seriously. They do now. Last November Shen, management and venture capital backers sold an 81% stake to Philips Electronics N.V., the Dutch electrical products giant, for about \$60 million. Shen will stay as president and minority shareholder.

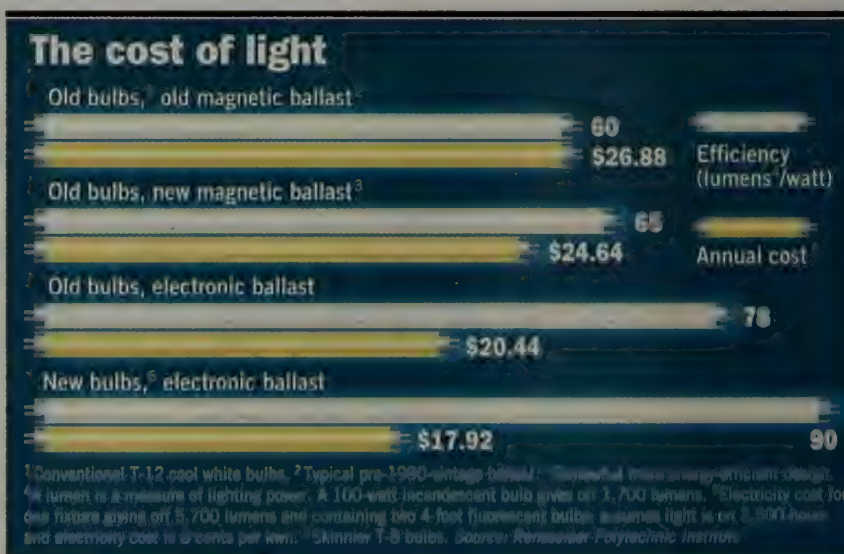
Why the burst of interest in efficient light fixtures now, at a time when oil prices are weak? In large part because

electric utilities, under pressure from state regulators, are getting heavily into conservation subsidies. In effect, all ratepayers are taxed and the proceeds are then handed to selected ratepayers—the ones retrofitting their homes and businesses with energy-saving devices.

Conservation subsidies, which currently run to \$1.5 billion a year, go, for instance, to landlords, who get rebates of 50% to 100% of the cost of retrofitting their lighting systems. The idea is simple: By reducing the

BELOW:

Electronic ballasts are 20% more efficient than the better magnetic ballasts. Building owners retrofitting their ballasts often upgrade to better bulbs, too, for further savings.



demand for electricity, you take pressure off the utility companies to build costly new plants.

Absent the subsidies, it's fairly hard to persuade the owner of a shopping mall or office building to hire electricians to pull fixtures out of the ceiling and rewire them. But with the subsidies, retrofitting makes a lot of sense. The U.S. has at least 1.2 billion old magnetic ballasts installed in lighting fixtures and destined to be replaced someday. Why not upgrade now—with the utility splitting the cost—and

cut your electric bill? If you put in both new ballasts and new, super-efficient light bulbs, you can cut the fixture's wattage by a third without any reduction in light output, say Rudolph Verderber, an authority on lighting ballasts at Lawrence Berkeley Laboratory. In a 100,000-square-foot department store, the ballast upgrade will save maybe \$18,000 a year in electricity bills. Even without bulb upgrade, an electronic ballast will cut a fixture's electricity use by 17% to 24%. And electric rates can



ter Shen,
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bet the house;
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ly go up if Congress goes along
ith Clinton's proposed Btu tax.
If it took lighting engineers a long
me to wake up, to the potential in
electronic controls, it could be be-
cause the 50-plus-year-old magnetic
allast was so beautifully simple—and
heap to make. To get a fluorescent

bulb to burn properly, a fixture must accomplish two things. First, it has to momentarily goose up 120-volt electricity to 250 volts, when the light is turned on, in order to get the juice flowing through the tube. Once electricity starts flowing, however, it flows all too readily; the fixture must choke off some of the flow to keep the tube from instantly burning out.

It happens that a single device, a coil of copper wire wound around a core of iron, can do double duty, starting and running the bulb. Bal-

lasts of this type, oblong black boxes about the size of a hero sandwich, can be manufactured for about \$7 and are extremely reliable. Transistorized ballasts, in contrast, started out expensive and unreliable. It was a tough sale at first, and Shen's firm barely survived the early years. Early products proved defective. "It was a total disaster," recalls Shen. "I figure it cost \$750,000 and took three years to replace them."

But Shen knew he was on to a good thing, and he persisted. Born in Shanghai in 1940, Shen got degrees in physics and math at St. Joseph's College in Indiana, then spent 15 years in semiconductor research. In 1978 Beatrice Foods recruited Shen to develop power semiconductors for a newly formed venture working on electronic ballasts. Two years later Beatrice launched its first ballasts, but they were a commercial flop. Shen bought the Beatrice subsidiary for \$250,000, renaming it Electronic Ballast Technology. He partly financed the purchase by mortgaging his house in Palos Verdes, Calif. for \$80,000.

Shen kept the sinking business afloat by taking out three more home equity loans on his house and by subsidizing it with a lucrative side business exporting semiconductor equipment to China. He cut costs by moving production to Taiwan and hiring mostly immigrant Chinese engineers for his lab in Torrance, Calif.

In 1987 he had his first big breakthrough when his firm qualified as a supplier to General Electric. Shen has now pushed his defect rate below 0.2% and his manufacturing cost below \$20.

Shen has several selling points besides the big-ticket item of electricity savings. One is that an electronically controlled fluorescent lamp can easily be dimmed, unlike a magnetically controlled one. Fluorescent-dimming technology is still in its infancy, but Shen believes it will eventually enable offices, stores and other commercial buildings to cut their electric bills by billions of dollars. The dimming systems, of course, will themselves have to be electronic, and Shen aims to make a lot of money selling them. Get ready for another wave of retrofits a few years hence.

Modem conspiracy

COMMENTARY BY PETER HUBER



Peter Huber, a senior fellow of the Manhattan Institute, is the author of *Galileo's Revenge: Junk Science in the Courtroom* (Basic Books).

AFTER one settlement of a private suit last year, the Department of Justice has launched yet another attack against the airlines. They've allegedly used their Byzantine fare structures to signal price changes and enforce discipline. Carrier X floats a new fare: \$350 round trip to Hawaii. Carrier Y responds—at midnight on Saturday—with a suicidally low \$100 fare. Through an on-line reservation system like American Airlines' Sabre, the news flashes out into electronic cyberspace, where X's computers pick it up and sound an alarm bell. The kicker: Y's fare expires Sunday at noon. Gazing into the glow of its terminals, X gets the message: Raise your price, or we'll extend our cut-throat offer indefinitely—and you'll go bankrupt before we do.

That, in any event, is the sort of thing being alleged. Given how many airlines are now in bankruptcy or beyond, however, it seems obvious that rivals have not been getting the message at all. But reality checks like that often don't make it to Washington, where lawyers nest and rear their young. So expect to see antitrust lawyers out preying on the productive sector again soon.

Begin with basics: The smart businesswoman collects reams of data about her competitors, and acts on it every day of the week. Most of the time she's doing what every good

competitor does—trying to sell more for less. Occasionally, she's trying to offer less for more, pursuant to some nefarious antitrust agreement. The agreement, if there is one, may have been hatched in some Perrier-filled back room with the shades down. Or it may just have crystalized as a tacit understanding among people who are smart enough to make deals without any face-to-face scheming at all.

Most of the time, competition is robust. Even OPEC, which counts among its conspirators people who can use Scud missiles to punish defectors, has found it impossible to maintain any real price discipline in its ranks. Nonetheless, cooperation (or conspiracy) can also evolve spontaneously, even with no face-to-face dialogue. This is especially likely within groups where there are repeated opportunities either to cooperate or to compete, and when each member can easily monitor how others are behaving. Ten years ago game theoretician Robert Axelrod published a brilliant book—*The Evolution of Cooperation*—that explained why, and presented examples spanning pigeons, breakfast cereal, and trench warfare in World War I.

The exchange and assimilation of information is, of course, getting easier every day. Computers, data networks and such obviously create some new opportunities for conspiracy, antitrust conspiracy included. So maybe some fools in the airline industry really did believe that they could fix prices (or “stabilize” them, or whatever euphemism you prefer) by way of computer modems. If so, they—like the government lawyers who are now pursuing them—overlooked the fact that what the terminal giveth, the terminal also taketh away.

Consider again how carrier X is going to send a message. X wants to threaten Y with Hawaii for \$100, but it sure doesn't want to fly anyone at that price. That's why the tariff is posted at

midnight on Saturday. X knows that monitors every microscopic fare change with scrupulous care. But X hopes that travel agents and consumers don't. Price-fixing with computers like price-fixing with Perrier, is going to work only if no one else is watching.

And if no one else is watching, the Buffalo Bills can use Uzis to win the Super Bowl next year. But millions of consumers already have instant access to the airline reservation system, via dozens of on-line services—Prodigy, Compuserve, Genie, you name it. Thousands of travel agents are linked too. Sure, airlines have software for tracking every new fare announcement posted on Sabre. So do travel agents. And one of these days some home office hacker in the hills near Seattle will sell an equivalent package for the home user. You want Hawaii next December for \$100? Your Book-program will dial Prodigy every night for the next six months, searching for booking, canceling and rebooking while you sleep. In effect, the airlines' computers will have six months to bring their way down to a price your machine likes. This already happens all the time, though a shade less systematically than I've described. For even would-be price-fixers hoping to set high, there are 10,000 vacationers who want to buy low, and the terminals glow on both sides of the counter. The contest isn't close to even.

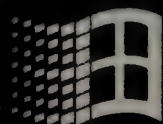
If you look hard enough, you can always find some downside to new information technology; in the marketplace, the most obvious one is antitrust conspiracy. But overall, better information promotes much more competition than conspiracy. The huge increase in convenience, flexibility and accuracy created by systems like Sabre has been a tremendous boon to the consumer, and has cost airlines a bundle. Indeed, those alleged price-fixers of the skies, those robber barons, those rapacious gougers of the consumer's purse, have managed to lose \$7 billion in the last two years, to the immense benefit of the flying public. Use the right software, and you'll be hearing aloha instead of snow reports next New Year's Eve, with cash to spare for the bubbly. Unless, of course, federal trustbusters can find some way to keep you safe at home.

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If spontaneous guitar music, ski instructors who spout about Pushkin, and uncrowded powdery slopes are your thing, get you to Mount Elbrus before they turn it into another Saint Moritz.

Skiing in the Caucasus

By Craig Mellow



Skiing down
Cheget Mountain
in the Caucasus
**No Sno-Cats
groom
this mountain.**

Photographs by Chuck Nacke/Picture Group

Lunch at a local's
home in Badaevka
**Befriend a native
and you'll soon
be invited
to his home.**

MOST OF MY FRIENDS in Moscow belittled my plans for a ski week in the northern Caucasus. "You might never get there," commented one, summing up the general sentiment.

I got there, but it wasn't easy. It was, however, a screaming bargain and a marvelous, if taxing, experience.

The flight south from Moscow to Mineralnyye Vody ("Mineral Waters"), in the Kabardino-Balkarian region, takes an hour and 40 minutes and costs about \$126 round-trip. But at Mineralnyye Vody your trip has just begun. From there it's a three- or four-hour drive into the mountains forming the base of Mount Elbrus—at 18,510 feet, Europe's tallest mountain.

It's an area rich in history. You follow in the hoofprints of genera-

tions of Kuban cossack horsemen, who arose from their steppes to war with the wild high-country Muslims. One of those fighting alongside the cossacks in the 1850s was young Lev Nikolayevich, Count Tolstoy, who would recall the experience in tales full of bloody double cross and gallops by starlight.

Things change slowly in this part of the world. Georgians are bloodily repressing secessionist rebels in South Ossetia and Abkhazia, 60 to 120 miles from Elbrus. Armenians and Azerbaijanis are slaughtering each other over in Nagorno-Karabakh. Last autumn, a day's drive east from Elbrus, the Muslim Ingush people started shooting it out with the Ossetes, who are mixed Muslim and Christian.

Given the gunplay and miseries of Russian travel, I was not surprised that only a dozen or so chilled, close-mouthed guests occupied a space meant for hundreds in the dining room at the Itkol hotel in Terskol when I arrived in January.

Make no mistake. This isn't Gstaad. The Itkol was built as a trade union hotel, and feels like it: a concrete rectangle still bedecked with such inspiring slogans as "Tourism—The Most Satisfactory Form of Active Relaxation." But the price was right. In honor of my dollars, I was given the best room in the house, three meals, a lift ticket and a private instructor—all for \$75 a day, payable in cash only.

Actually I was being extravagantly overcharged. Holders of ex-Soviet



ssports pay the ruble equivalent of about \$3 a day for the same package, minus the instructor.

In the morning a clutch of eager skiers from the Itkol and a few other nearby hotels assembled at the sole chairlift of Cheget Mountain. Not as high as Elbrus, but steeper, 11,500 feet tall. A real skier's hill.

Remember, this is Russia. The lift doesn't start running at any fixed hour. Each day begins with a ritualistic struggle between the skiers and the Chechenskian operators, who want to collect the maximum in gate receipts for the minimum electric bill. The earliest I saw the chair start up was 10:00 a.m., and the slopes are empty by 2:00 or 2:30, so people can make the standard 3:00 lunch at their hotels.



Town of Terskol, in the shadow of Mount Elbrus, Europe's highest peak

No boutiques or bistros, but the price is right: \$75 per day, all-inclusive.

But in those four hours or so the lift runs, you get plenty of skiing. It is said the vertical drop is over 3,000 feet. The top half of the mountain is sheer, above-the-treeline faces, framed by noble, unforgiving peaks that tower on all sides. Once you reach the stout shelter of the pines, steep stretches of moguls begin, and last for a long time. No Sno-Cats groom this mountain. There's no rope tow or bunny hill. Beginners sidestep and herringbone up as far their legs or skills will take them. So do the more energetic of the experienced skiers as they wait for the Balkarians to turn on the power.

My instructor, Misha, and I got along famously. This skinny gray-beard, who has lived in the mountains for 20 years, ate a diet mostly of rice and nuts and alternated between snatches of folk songs and rueful comments on my excess body mass. Twice in the late afternoon Misha invited me to his shack, where we shared tea and a liquor brewed from herbs gathered on the summer slopes. A lover of literature, like many of his countrymen, Misha subjected me to lectures on why Mikhail Lermontov, the brilliant soldier-poet, was greater than Pushkin.

The rest of the Itkol began to warm up to me, too. The second day of my visit, the wind was too strong for the Cheget chair to run at all. So the hotel's driver, Zaitoun, invited me to his nephew's wedding.

The ceremony involved symbolic last-minute, open-air dickering between the elders of the two families. The bride remained closeted with her female relatives. The groom? He made a brief, wobbly appearance supported by numerous seconds. Zaitoun maintained later that the young man was nervous rather than drunk. I still suspect the latter.

If the bridegroom really was sober, he was in a minority. For the next morning, with a creamy blanket of calf-deep virgin powder crying for skiers, the lift operators couldn't be rousted until 10:30, and then limped in with pained, martyred expressions.

The next day Galina, the Itkol's



Sauna time at the Itkol hotel

Guests provide their own entertainment.



A cozy dacha, formerly the property of the Health Ministry
Now available for rent at bargain rates.

Ukrainian nurse, took me to drink mineral water from a natural spring and buy goat's wool sweaters (for \$8) in the village of Badaevka—so called, it is said, because everybody there is named Badaev. We also got a glimpse of life in communist days. We visited a dacha built for Health Ministry big shots, a gorgeous place, deep in the woods with a burbling brook, and a peak leaning over it. Want superluxury? You can rent the big shots' dacha for \$10 a night.

Mount Elbrus? I never got to ski there. The weather closed in, as it usually does in January. I was told to come back in March, when there's plenty of sun and the wind is gentle

enough for the fragile goat dola to lurch its way up Elbrus to 12,000 feet. You can use it in the summer for climbing, hunting (for wild goat and sometimes bear) or, in finest Russian tradition, "resting."

Will Elbrus one day become a Slavic Saint Moritz? I hope not. What happened my last night at the Itkol would never happen in Saint Moritz. Four sympathetic young chaps arrived from Moscow, took a guitar and some wine out in the hallway, and pretty soon the rest of the guests were singing

and talking. Friends on the staff filled my bag with tea and jam, to keep my healthy back in pestilential Moscow.

No, I don't recommend Itkol for a gourmet experience. The Itkol's food is not prizewinning but palatable, with plenty of beets and kasha (buckwheat groats) to keep you running on the slopes. But if the idea of visiting an unspoiled place for a unique experience appeals to you, call Intourist (212-757-3884).

The morning of my departure, a soft snow fell, gathering in blankets on the evergreen branches. The air tasted sweet. "When you've gone away," Misha told me, "you'll regret your stay was so short." He was right.

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Jigsaw puzzles—antiques and custom-made new ones—make amusing and affordable collectibles. But watch out for missing pieces.

2,500 easy pieces

By Christie Brown

WHO DOESN'T HAVE childhood memories of scrounging for pieces of border or matching blue sky to assemble jigsaw puzzles brought out on rainy days?

Anne Williams, an economics professor at Bates College in Lewiston, Me., is 49, but she is still piecing together those puzzles. With more than 3,000 in her attic—one of the biggest collections in the country—she has plenty to choose

from. Amassed over the last 15 years, the puzzles date from the 1760s to the present. There are puzzles of maps, fairy tales, battle scenes, cancan girls, cartoon figures—even a 1930s ad for Esso. The ad depicts cartoon monsters attacking a car and was drawn by Dr. Seuss.

Williams' puzzles range in size from 2,500-piece puzzles about 3 feet square to a Japanese puzzle only 3 inches square that came with tweezers to assemble the 150 tiny pieces. Dozens of Williams' favorites are kept assembled in map drawers. The others

get broken up and put back in the box—after she photographs them.

As collectibles, old puzzles are still very affordable, although prices are rising. "Prices have about doubled over the last four years for the colorful cardboard puzzles from the late 1800s—they bring from \$200 to \$1,000 apiece," reports Richard Opfer of Richard Opfer Auctioneering, Inc., near Baltimore, which regularly auctions puzzles and games. In 1991 he hammered down, for \$2,750, an 1880s Santa Claus puzzle made of cube-shaped pieces by McLoughlin Brothers of New York. Oddly enough, many of the early adult wooden puzzles bring much less—under \$100.

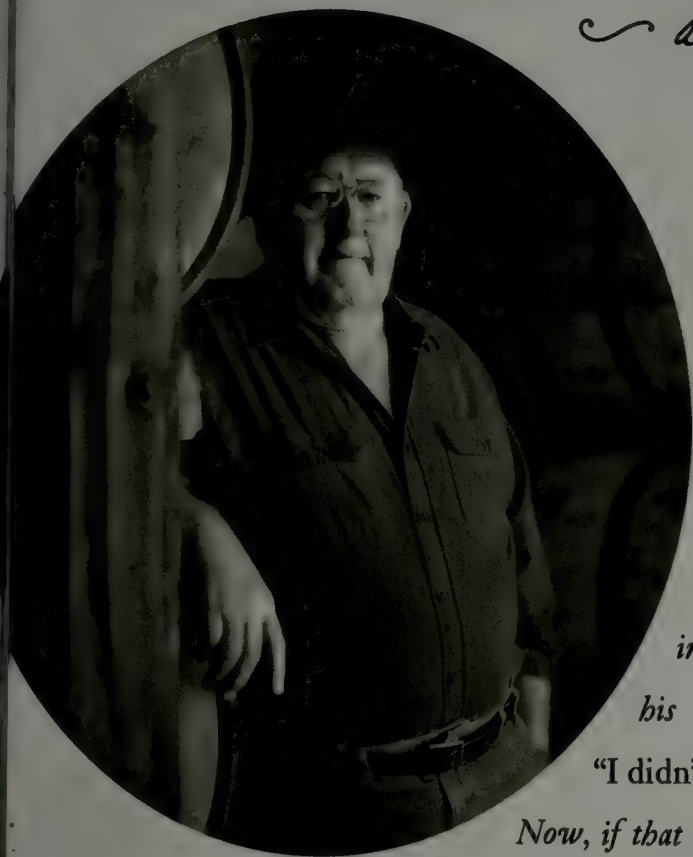
The value of puzzles drops drastically when pieces are missing. Take a Civil War puzzle recently consigned to Opfer. He estimated it at \$400 to \$600 until his staff assembled it and found it lacked several pieces. "Now it's worth maybe \$50 to \$75," says Opfer. Few dealers will take the time to assemble inexpensive puzzles, so



Anne Williams with map puzzle of Europe, circa 1766; upper left: a 1969 puzzle portraying W.C. Fields. Her collection of over 3,000 jigsaw puzzles is one of the largest in the country.

"I know bourbon gets better with age, because the older I get, the more I like it."

Booker Noe



BOOKER NOE will never forget the first time he sampled the legendary bourbon from his grandfather Jim Beam's distillery.

Even when he tells the story today, his face twists into a grimace, his head shakes slowly back and forth and his big hand swats at the air in front of him.

"I didn't like it at all," he says, without apologies.

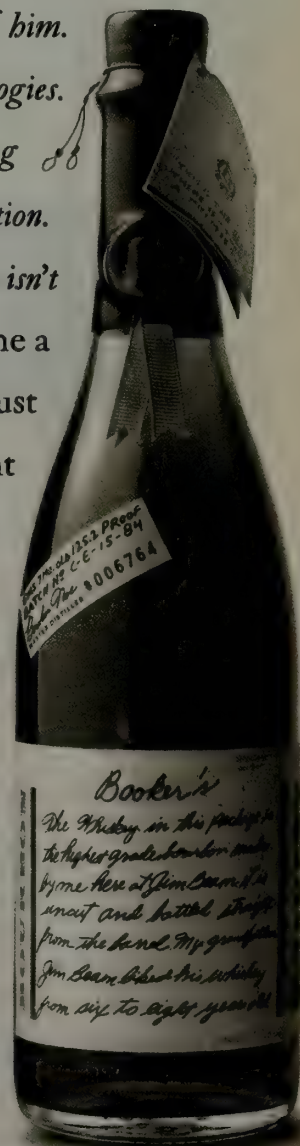
Now, if that confession sounds a bit strange coming

from a man who's devoted his life to making fine whiskey, there is a perfectly reasonable explanation.

Booker Noe, perhaps better than anyone else, understands that an appreciation for bourbon isn't something people are born with. "Like most people, learning to love fine bourbon took me a certain amount of time," he says, "But as the years have gone by, I've decided there's just nothing better than whiskey aged in charred white oak, uncut, unfiltered and straight from the barrel." Which is why Booker Noe recently began bottling his unique bourbon and making it available to the few connoisseurs of fine spirits who can appreciate it.

Depending on the temperament of the seasons in the Bluegrass State, Booker's Bourbon reaches its peak anywhere from six to eight years into the aging process. And since every barrel ages differently, each batch of Booker's has its own unique proof, measuring anywhere from 121 to 127. With any luck, you'll find Booker's Bourbon at your local liquor retailer. But since, by its nature, this is not a mass-produced bourbon, you may have to look further.

Regardless how it comes into your possession, Booker Noe believes you will find his bourbon well worth the time and effort spent searching for it. Especially if, like Booker himself, the years have done for your taste what they do for a bourbon's.





The New Lincoln Mark VIII

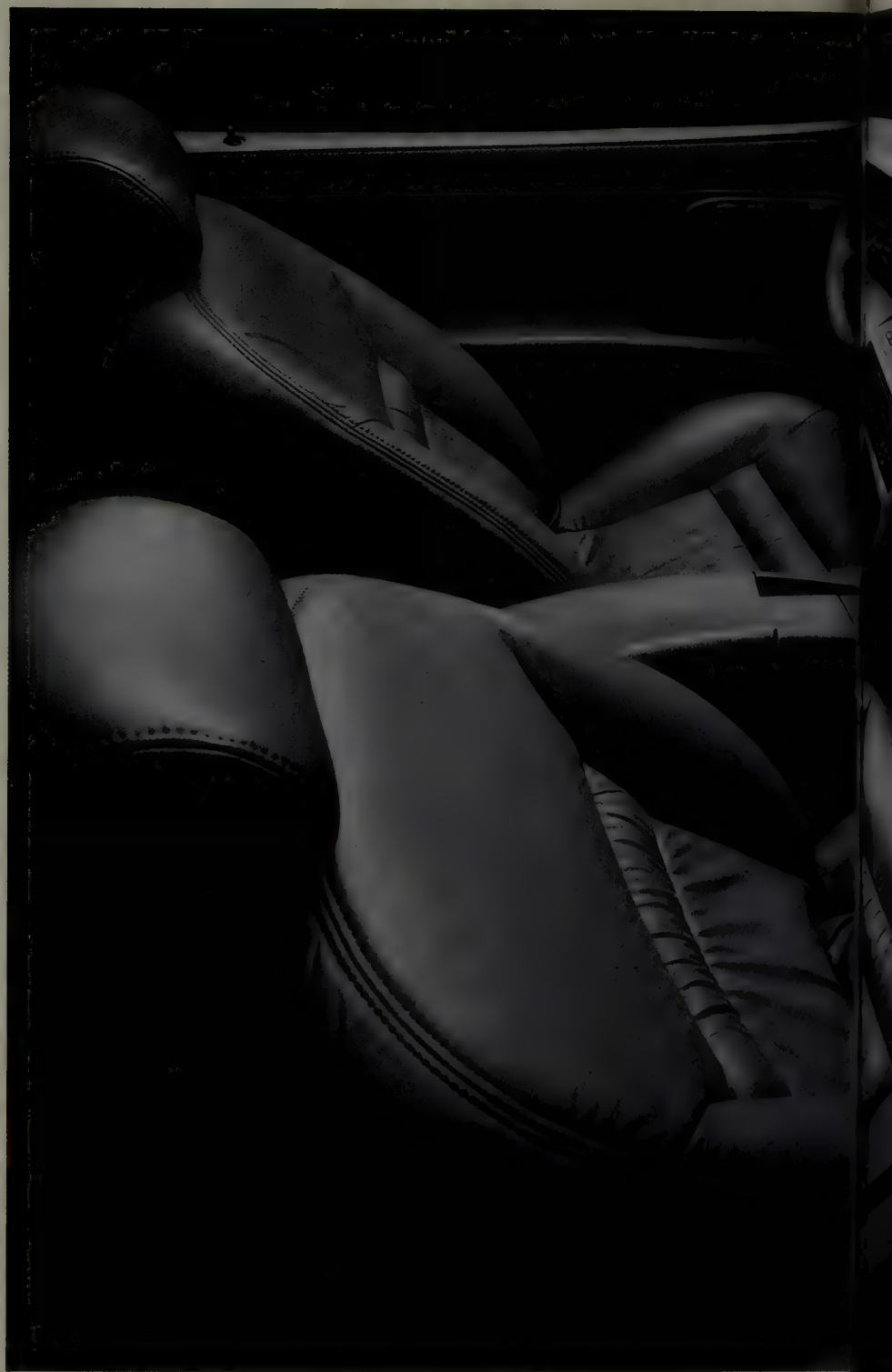
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LINCOLN MARK VIII

What A Luxury Car Should Be

collectors buy at their own risk.

Anne Williams has picked up most of her puzzles at flea markets, antique shops and auctions for under \$50. At those prices, missing pieces are more frustrating than of economic consequence. Williams has made new pieces for some of those puzzles or simply chucked them out.

But, for her most unusual and valuable puzzles, Williams buys from major dealers who guarantee authenticity and completeness. One of her prizes dates back to 1766, making it one of the world's oldest surviving jigsaw puzzles. Bought at Sotheby's in London, it is a child's puzzle and depicts a map of Europe; it was made by an Englishman named John Spilsbury. Williams paid about \$2,000 for the puzzle.

John Spilsbury gets the credit for inventing the jigsaw puzzle as we know it. A mapmaker by trade, he began marketing map puzzles around 1760 as an educational tool for children. A big hit with parents, biblical, historical and fairy tale puzzles were soon being churned out all across Europe.

American manufacturers caught on after the Civil War, led by McLoughlin Brothers. Known for their boldly colored, action-filled puzzles, the McLoughlins hired such illustrators as Justin Howard (the creator of Uncle Sam) and Thomas Nast, better known for his political cartoons than his Santa Claus pictures.

By the 1880s Parker Brothers and Milton Bradley (which bought McLoughlin in 1920) had become strong competitors, and cheap cardboard had replaced wood in most children's puzzles. But, among well-heeled adults, wood remained the favored medium—puzzles depict-



Advertisement puzzle for Esso from the 1930s

Drawn by Dr. Seuss.

ing popular prints by artists like Maxfield Parrish and Howard Chandler Christy became the focal point of puzzle parties. By 1932 the whole country was puzzle crazy. Three-hundred-piece puzzles were sold on newsstands for 10 cents. Total sales topped 100 million jigsaw puzzles in seven months in 1933.

Two unemployed New Yorkers—Frank Ware and John Henriques—caught the wave and founded the Par Co. in 1932. As the mass market

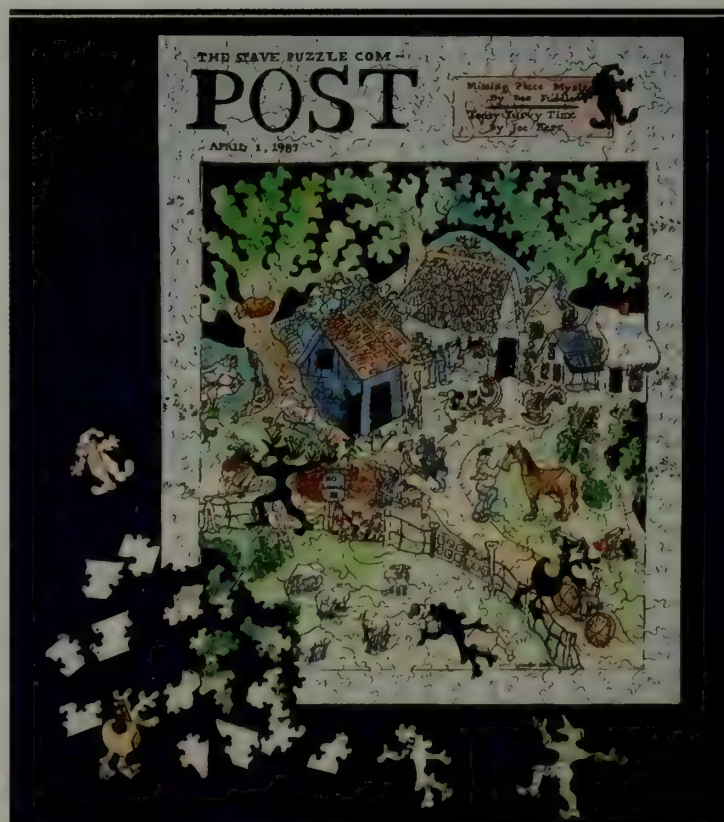
death and retirement of its founder in the 1970s, but the Wantagh, N.J. company still puts out about 20 puzzles a year.

Other inventive puzzlemakers have popped up to take Par's place. The biggest is Stave Puzzles, Inc. of Norwich, Vt., started in 1974 by Steve Richardson, formerly a systems analyst with a New Jersey accounting firm. Stave turns out unique, hand-cut wooden puzzles costing \$95 to \$9,000 each. Some are designed

satisfy the most jaded puzzle addicts—one of Stave's fits together 32 ways, but only one gives the right image. Richardson says sales have doubled in the last four years, to \$1 million.

Other custom puzzlemakers, all started up since 1985, include Elms Puzzles of Harrison, Me.; F. Bourke of Middlebury, Vt.; Lucretia's Pieces of Windsor, Vt.; and J.C. Ayer Co. in Salem, Mass.

To better acquaint yourself with the field, visit the exhibit of antique puzzles at the Fresno Metropolitan Museum in Fresno, Calif., through the end of the year. Anne Williams has also written an entertaining book, *Jigsaw Puzzles, An Illustrated History and Price Guide*, published 1990 by Wallace-Hornstead Book Co., Radnor, Pa. Price: \$24.95.



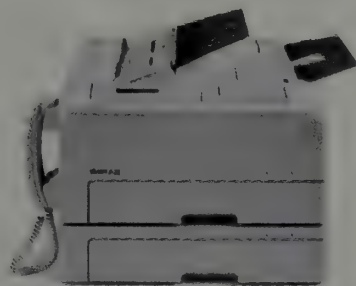
"April Fools" puzzle by Stave costs \$1,000

Custom-made and designed to drive puzzlers nuts.



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Instead of whining about the lack of opportunities for women in the brokerage business, Judy Resnick did something about it. She started her own firm.

“I didn’t know I was oppressed”

By Gretchen Morgenson

DON'T MENTION glass ceilings to Judith Resnick. Chairman and chief executive officer of Dabney/Resnick & Wagner, Inc., a well-regarded Los Angeles investment banking, brokerage and money management firm, Resnick well remembers her attempts to break into the brokerage business in 1983. “Shearson offered me a secretarial job,” she recalls, “and Merrill Lynch wouldn’t even see me.”

Bias against women? Not really. Then 41, Resnick had never worked professionally a day in her life, had little investing experience and no marketable skills. Moreover, she was almost broke and alone with two teenage daughters to support. What she did have was an extreme motivation to work hard, succeed—and never look back.

One of three children, Resnick grew up in an affluent family; her father owned a group of bowling alleys in Los Angeles. She married and divorced young; as a single mother, she was supported by her father.

That support vanished when he died suddenly in 1977. A few months later her sister and mother were killed in a plane crash. Then her father’s former partners stopped paying her income on the 5% of the game machine business in one bowling alley her father had bequeathed to her. Resnick was now practically destitute. “My dad had taken care of me all my life,” she says. “All of a sudden I had nowhere to turn.”

She sold her house and lived off the proceeds for as long as she could. Then she started looking for work.

She had no work experience; she couldn’t even type. The stock market

interested her, despite the fact that her broker had lost what little Resnick had to invest, trading in options. What mattered was that she had learned from the experience. “Although I was losing money, I noticed that he [the broker] was making it,” she said to herself, “Even I could do that.”

The big, established Wall Street firms she applied to—like Merrill and Shearson—weren’t so sure. Then a friend introduced her to a woman broker at a Drexel Burnham Lambert office in downtown Los Angeles. The broker’s office manager hired Resnick.



trainee, saying, "I don't know it is, but you've got something. I'm going to give you a chance." Resnick grabbed that chance and with it. To get accounts, "I made use of everyone I knew on the earth called them," she said. Then she called people she didn't know. Selling Treasury and municipal bonds, she netted \$106,000 her first year—an exceptional showing for a woman. Then she transferred to the Beverly Hills office, which was closer to her apartment. Her third year as a broker she was one of the top women producers in all of Drexel. In her best

year she grossed \$750,000.

"I just didn't have time to make excuses for myself," she says. "I guess I didn't know I was oppressed."

Drexel's incendiary success in the mid-Eighties created Resnick's next opportunity. The firm's institutional high-yield desk was doing so much business that small brokerages couldn't even get through to place orders or do trades. One of those clients was a regional Florida brokerage firm trying in the fall of 1987 to buy 150 bonds. The call was passed to the retail side, and Resnick did the trade: "That was when I realized I could put together a dealer desk and give small institutional investors Drexel's ideas in junk bonds."

Resnick put in a call to Mike Milken. He took it. She told him she could handle small clients like the Florida brokerage and keep them from going to other firms for junk bonds. Two weeks later, Milken hired her. That was early 1988; in her first year on the job, she sold \$200 million in bonds (face value) to small institutional clients. She was joined by two high-yield trainees and former institutional salesman Neil Dabney.

Then disaster struck. Resnick started noticing piles of boxes labeled for the Securities & Exchange Commission. Milken soon resigned. After he left she felt pressure to push bonds of doubtful quality.

One day a colleague strongly urged her to sell some Eastern Air Lines bonds to her clients—trading around 75 cents on the dollar—out of Drexel's inventory. "I didn't think they were appropriate for my customers, so I said no. That was the day I figured it was time to go out on my own." The bonds now trade around 4 cents.

Dabney decided to leave with her, and the two began quietly interviewing at other firms. This time, the reception was warm. But while they were interviewing, Dabney and Resnick realized that they'd really rather start their own firm. They told Drexel of their plans in late 1988 and remained at the firm for six months while they hunted for space.

By that time, the Drexel association had become a liability. "We went to the NASD and told them we were from Drexel and wanted to start our own firm. They looked at us like we had

three heads," says Resnick. But a local bank was willing to gamble on them, and several hundred of Resnick's and Dabney's clients were set to move their accounts. So Dabney/Resnick passed Nasdaq muster and opened for business in Beverly Hills in July 1989. The firm consisted of six employees.

More bad luck—which turned into good luck. Spooked by terrible publicity in the media, the junk bond market collapsed just after they set up shop. This turned out to be an opportunity in disguise. Most junk bonds had become screaming bargains (*FORBES*, Apr. 30, 1990). While most brokers and most of the business media were telling people to get out of junk bonds, Resnick and Dabney urged their clients to buy. The market rebounded and their clients' returns were phenomenal.

Always conservative, Dabney/Resnick paid off its bank debt after just four months in business. Now, with a couple of years of handsome returns on its high-yield portfolios—up 36% in 1991 and 39% in 1992—Dabney/Resnick has expanded its money management for high net worth individuals and corporate finance. Last year the 80-person firm traded approximately \$2.5 billion in bonds and also advised on about \$1 billion in leveraged buyouts, restructurings and financings.

Neil Dabney attributes his partner's success to this: "Fear of failure or rejection will not enter her mind," he says. "She believes in herself and those around her; that we will succeed even if it looks overwhelming on the surface."

Living in a Malibu home and basking in her hard-earned success, Resnick reflects. Being a woman and lacking an M.B.A. degree were, as it turned out, not real hurdles. Raising children alone, she says, taught her everything she needed to know about managing a brokerage firm successfully. "If you can get your employees to play well with others, share their toys and remember the golden rule, you'll do okay."

For women who want to make it on Wall Street, Resnick has this advice: "Don't make barriers where there aren't any. Work hard, of course, but do not become one of the boys. Stay a lady."

Judy Resnick,
chairman of
Dabney/Resnick
& Wagner, Inc.
**Raising children
alone taught
her everything
she needed
to know
to run
a business.**

Art market timer

NOW MAY BE THE TIME to buy art. Straw in the wind: Robert Mnuchin, who recently paid \$1.1 million for a Mark Rothko painting that fetched \$3 million three years ago. But the Rothko won't hang among Mnuchin's highly praised private collection of abstract expressionists. Instead, as one of the first acquisitions of C&M Arts L.P., an art fund Mnuchin started with Los Angeles dealer James Corcoran, the Rothko will be set aside in hopes that it can be sold at a fat profit in three to five years.

Mnuchin, 59, is the former Goldman, Sachs managing partner who helped develop the institutional equity trading market. After retiring in 1990, he renovated a country inn in Connecticut's Litchfield County with his wife, Adriana. Once the inn was up and running, Mnuchin set about raising money for the art fund. With a typical investment of about \$1 million, the fund has already attracted over \$10 million in the private placement market.

"The sensible way to invest is when the values are there," says Mnuchin, who admits to buying a number of paintings for his own collection at the peak of the market. "It's much easier to buy when things are in fashion and more difficult when things are uncertain, but uncertainty can create opportunity."

With Corcoran, Mnuchin also co-manages C&M Arts, a commercial gallery, which is elegantly housed in the first two floors of his Upper East Side town house. Both the fund and the gallery focus on paintings by big-name artists from the 1940s, 1950s and 1960s—among them Rothko, Willem de Kooning and Jackson Pollock. Mnuchin promises that the gallery and the fund will not buy from or sell to each other. As the fund's biggest investor, he adds, he has a strong personal interest in making its value grow.

—CHRISTIE BROWN

New to The Four Hundred

THE CABLE TELEVISION industry is losing an owner, but The Forbes Four Hundred is gaining a new member. Meet Gustave Hauser, who has just agreed to sell two cable systems in the



ABOVE:
Art investor
Robert Mnuchin
**A Rothko
at 60% off.**



Gustave Hauser,
Hauser
Communications
**From a salary
to \$300 million
in ten years.**

Washington, D.C. area to Southwestern Bell for \$650 million. Hauser's 75% interest in the systems will net him over \$200 million. This, plus earlier gains from two Minnesota cable properties, pushes his net worth close to \$300 million.

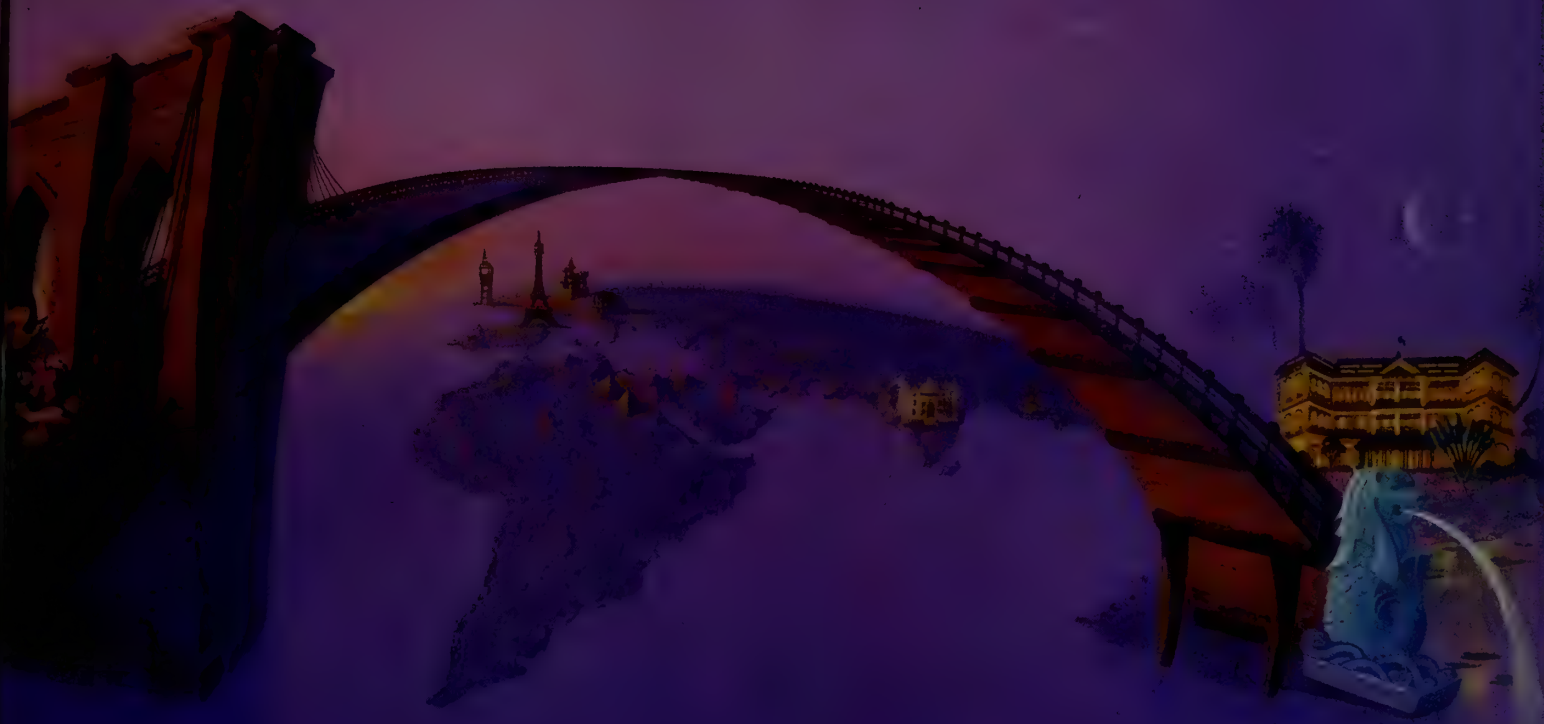
Hauser, 63, was a lawyer for the Department of Defense until 1960, when he left government service for a job at GTE. From there he moved to Western Union International. In 1973 Warner Communications' Steve Ross recruited him to build Warner's then-nascent cable television business. "Cable was just getting started," Hauser recalls. "It was really small potatoes."

His timing was superb. Revenues at the cable business grew to over \$500

million by 1983. Then Hauser left to start Hauser Communications. In 1983 he bought a cable system in Arlington, Va.; three more systems in Maryland and Minnesota soon followed. "Money flocked to me," says Hauser. "Banks, institutions—all wanted to lend me money."

Hauser says he sold out to Southwestern Bell because he believes the future of cable lies in interactive television, and the Baby Bell can best develop the technology needed to operate such a system. "After several discussions, I felt that Southwestern had a similar vision of where the cable industry should be going," he says. "Of course, the money didn't hurt either."

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William Mercer McLeod

ber of The Forbes Four Hundred? "If I knew that all my work would land me on your list," Hauser jokes, "I might just have stayed in government." —STEVEN ZAUSNER

Cookware tiger

FROM OUT OF NOWHERE, Stanley Cheng has become the top seller in the U.S. market for expensive cookware. At 45, Cheng is president of his family's Hong Kong-based Meyer International. Meyer sells lots of cheap aluminum pots and pans across Asia, but very expensive cookware in the U.S. Its Circulon, Anolon and Stee-lon brands sell in the better department stores for as much as \$95 for a frying pan, and up to \$213 for a large roaster.

In a highly competitive cookware market, Cheng has differentiated his high-priced pots and pans by making them with nonstick surfaces and heat-resistant plastic handles.

Snooty gourmet cooks may still shudder, but lots of people appreciate handles that stay cool and surfaces that are easy to clean. Meyer International did \$50 million worth of business (wholesale) in pots and pans in the U.S. last year, five times what it did five years ago.

Cheng, who earned an engineering degree from Oregon State University, has big hopes for the North American



Shawn G. Henry/SABA

Mullen Advertising's James Mullen
He'll stop at two car accounts.

Free Trade Agreement. He is planning to build a \$10 million plant in Vallejo, Calif., 20 minutes north of San Francisco. "Now we can say we're made in America," says Cheng, who adds that he plans to sell a substantial amount of the plant's output to Mexico and Canada.

—CHRISTOPHER PALMERI

The greatest race of all

JAMES X. MULLEN has been chasing cars for over 30 years. He's raced them—he won twelfth place at Le Mans in 1984 and first at Florida's

Cookware maker Stanley Cheng
Pots and pans for the upper classes.

prestigious 12 Hours of Sebring the year before—and he's collected them; currently his collection numbers 15.

In his business life, too, Mullen likes cars. In 1990 Mullen's advertising agency, Mullen Advertising Inc., chased and won the Rolls-Royce Motor Cars account in the U.S., a very prestigious account worth an estimated \$5 million a year in billings. Then, last month, Mullen caught some much bigger car business: the creative end of BMW of North America's \$80 million ad account. (Another agency, New York's DeWitt Media, Inc., will handle media-buying.)

Mullen, now 52, started writing ad copy in the 1960s, when he was working for racing sail maker Ted Hood. When Hood sold his company in 1970, Mullen opened his own agency, hoping to make enough money to build a boat and sail around the world. "I didn't know any other business you could start with no capital," he says.

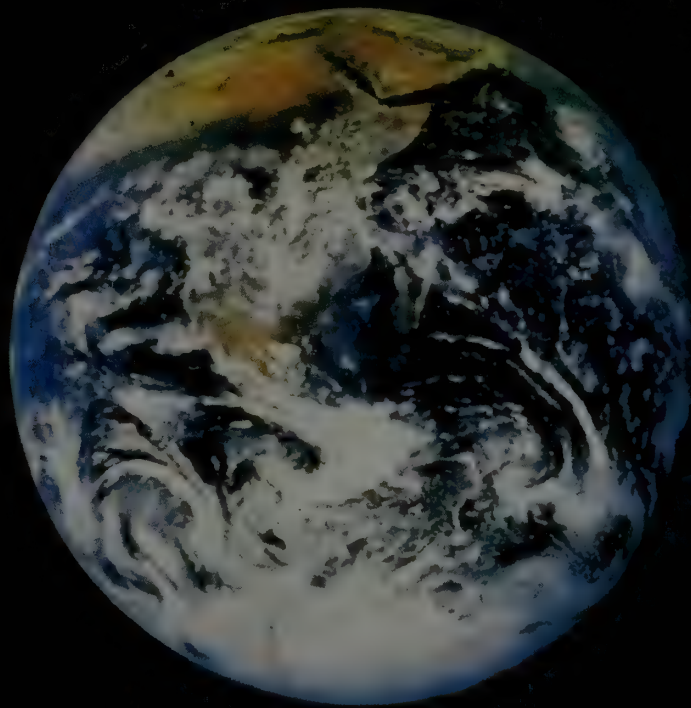
The boat never got built, but Mullen's agency has grown to \$150 million in billings from such clients as Timberland, Boston Whaler, Digital Equipment, Veryfine, Reebok, Rolls and now BMW. Mullen likes to conduct his business from large mansions on large estates. After the last one burned to the ground in 1987, he moved his operations to Penguin Hall, a 79,000-square-foot Jacobean mansion on a 50-acre estate in Wrentham, Mass., about 20 miles north of Boston.

For BMW, Mullen's chief challenge will be to enhance the marque's appeal to women and families, without losing its loyal performance-minded buyers. Mullen's first ads, for BMW's 5 Series and its new 3 Series convertible, will appear in the spring.

Intriguingly, half a dozen car accounts—Porsche, Mercedes-Benz and Jaguar among them—recently have been up for grabs. But Mullen says he didn't pursue those and won't pursue any other car accounts. Why risk upsetting Rolls-Royce and BMW?

"I love cars," says Mullen. "But I love advertising more. Business is the greatest race of all."

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money and by providing printing presses, electronic equipment and invaluable publicity worldwide. They nurtured Solidarity, and, as they say, the rest is history.

Unlike other Western organizations, the AFL-CIO never gave in to the temptation to consort with organizations that were really fronts for collaborators with communism. In the late 1940s, when communism was a major factor in the labor movement, Lane and others fought ceaselessly to exorcise its influence. As a result, American freedom and politics benefited enormously.

All you have to do is look at Europe's politics, its countries' often lukewarm responses to aggression and overtures from the Soviet Union to see how invaluable the AFL-CIO and Lane were to the fight for freedom. That kind of thing does not make a big splash in the history books, but those of us who study that period now and in the future will recognize what extraordinary figures Lane Kirkland and the AFL-CIO were.

Moreover, Lane and his colleagues are not resting on their laurels. Today they are encouraging and promoting authentic representatives and organizations—not simply puppets of political parties or governments—for working people in many countries. So, in an age of little people, Lane is a true giant. It's been a privilege to work with him over the years on the Board for International Broadcasting.

It is very thrilling tonight, and fitting, that Radio Free Europe/Radio Liberty is being honored. Too often traditional diplomats and military strategists do not fully recognize what potent instruments and powerful weapons radio broadcasts are. There is nothing more effective at influencing events on a daily basis than radio. Diplomats tend to work with other diplomats and governments, and they develop a myopia. Their tendency is to downplay or underappreciate the impact that ideas and information have on events in other countries, on the world and on public opinion in general. Too often they see themselves as molders of history rather than as the instruments of history.

A strong military is central to defending and advancing a society's interests, but one hopes military weapons never have to be used, that they are a deterrent just by being there. But with radio broadcasts, there is an interaction with millions of people on a day-to-day basis—a waging of the war of ideas. Unfortunately, in the past radio has not always been used in the defense of freedom. Totalitarians Göring and Goebbels recognized radio's potential in the Thirties in Germany; later the U.S.S.R. recognized it; and Iran is using it today.

RFE/RL is unique in that it does what we call "surrogate broadcasting" or "home radio service broadcasting." Unlike any other international broadcaster, RFE/RL places an extraordinary focus on the internal events within the countries to which it broadcasts and on events in neighboring countries that will have an

impact on or an interest in the target country.

Another difference between RFE/RL and other broadcasters—and I hope people keep this in mind as they look at what U.S. government broadcasting should be in the future—is "cross-reporting." This is when we take an event that happens in one country, such as a debate, translate it and transmit it to a neighboring country where the subject matter is also of major importance.

Another essential part of what RFE/RL has done, what I believe is a real heritage for the future, is research and archival service. RFE/RL is not a "rip-and-read" service. We do not just take what comes across the wires and broadcast it. We broadcast what is an analysis of culture, literature and events. And, as a result of our enormous research capability, we have the largest archive on Eastern and Central Europe and probably the largest on the former Soviet Union.

All the samizdat material is in the archives. During communism's reign, anyone who wanted something important to see the light of day sent it to our headquarters in Munich. Munich became a true crossroads for Europe

and West. The archival service and the analysts at Munich enabled RFE/RL to do features and analyses that gave an immediate texture and a depth to our broadcasts that otherwise would have been impossible.

Finally, broadcasting independence is absolutely essential—something that RFE/RL has. Thanks to the Board for International Broadcasting, there is a shield between RFE/RL and the State Department and others who are involved with diplomatic

Without that shield and independence, the temptation to meddle in broadcasting—as was seen with Voice of America in Iraq and in other regrettable instances—is absolutely irresistible to policymakers. If there is going to be a reorganization of the Radios, that shield must better remain in place or there will no longer be serious surrogate broadcasting. There will be simply another international broadcaster.

The impact of the Radios in Eastern Europe, of course, has been enormous. They broke the monopoly on information. Communism was the 20th-century version of serfdom, and it could only survive in isolation. Because we broke through the isolation barrier, communism was not able to silence the idea that there could have an alternative system of individual choice and responsibility.

Today the forces of darkness, unfortunately, are strong, and people like Vaclav Havel of the Czech Republic, Jozsef Antall of Hungary, Boris Yeltsin of Russia and Lech Walesa of Poland have all testified that the U.S. government needs to remain involved in the affairs of the world. All of them have consistently said that Radio Free Europe/Radio Liberty still has a vital part to play in helping their countries' transitions to democracy and free markets. We, in this information-saturated society, do



Freedom Award recipients Forbes and Kirkland.

Glen Davis

...ciate that their domestic media are superficial, still corrupt, inflammatory and unreliable. The forces of democracy in their countries see RFE/RL as a model for the depth of news, analysis and objectivity. They are playing an important role in damping the flames of passions and in helping to keep their people calm. A few months ago some Yugoslav journalists came to Washington and asked some pointed questions: "Why isn't the U.S. doing these kinds of broadcasts to Serbia and Croatia, especially Serbia? Don't you realize that because the government controls the media in that country, it is likely to inflame ethnic hatreds, which were already at a high pitch, and that that is why you have the tragedy unfolding there now?"

We took those words to heart and went to the Office of Management & Budget and said that for \$3 million we could set up a broadcast service in a few months in Serbia, Croatia and Albania. OMB said, "We can't afford it." Now, those may not be the words of isolationism, but they are an echo of isolationism. That is how isolationism—or what is called neo-isolationism—always comes back. It will not manifest itself as it did in the 1920s and 1930s, but Congress will not want to devote the resources needed for the U.S. to do its proper job today. The result will be the same.

That brings us to the role of the U.S. and RFE/RL in today's world. Only the U.S. can play the global role of preserver of an environment where freedom can flourish. In the success of surrogate broadcasting, we should be providing it to other countries instead of trying to find ways of putting it out of business. Yet RFE/RL is now in a fight for its life.

The other day a U.S. senator introduced a bill to stop funding under the guise of reducing the budget deficit. [The Clinton Administration's budget officials have just made a similar proposal.] Our operating budget is only 1% of the U.S. budget, and this senator's bill would put us out of business in the name of fighting the deficit. That's not even penny-wise, pound-foolish! It's the kind of attitude, though, that is too prevalent in Congress and parts of the country nowadays.

It is ironic that people who think of themselves as democracy's friends would unwittingly ally themselves with anti-Semites, militarists, extreme nationalists and ethnic cleansers. Talk about strange bedfellows!

That, of course, leads to the ultimate question: "Does the end of the Cold War mean that the role of radios, whether RFE/RL or others, is over?" The answer obviously is "no." Because an instrument was used in one conflict does not mean it cannot be used after that conflict is over. I am reminded of an article that appeared in *FORBES* magazine right after World War I. (We were founded in 1917.) The focus of the article was "Will there be a role for trucks when the war ends?" Did the end of World War II mean that jet engines would no longer be needed? And, likewise, just because surrogate broadcasting succeeded in the Cold War does not mean that it cannot be used in a post-Cold War world.

The blunt truth is that only twice before in this century has the world situation been as fluid as it is today—once following World War I and again following World War II. After WWI, America sank into isolationism. After WWII, we took a very proactive approach in Asia and one even more so in Western Europe, with ideas such as NATO, the Marshall Plan, Bretton Woods, the European Payments Union, the European Coal and Steel Community. These and other measures helped get Europe back on its feet. The question today is: "In which direction will we go?"

Radio broadcasting, particularly surrogate broadcasting, is not the be-all and end-all of the post-Cold War world. But in helping to create an environment for promoting growth, tolerance, pluralism and democracy, home service radios—as exemplified by RFE/RL—are unmatched in both cost-effectiveness and impact on millions of people.

I think we should be inspired by what we did in Western Europe after WWII. It was America at its best, and we helped nurture the attitude and the institutions that developed an extraordinary new way of life there. It was democracy and the security that makes democracy possible that encouraged economic growth and individual choice—and by individual choice I mean giving people the notion that they can develop in life, that there is a moral purpose in developing all of your talents.

I think that America can once again help other countries learn that there is more to life than settling old scores. Tonight I hope that we will celebrate not only what RFE/RL and others have done but what they can do in the future.

Remember that at the beginning of this century, and particularly in the United States, there was total faith in progress. We knew there were a lot of problems, but we believed the new century—the 20th century—would be unprecedented in terms of material wealth and in advancements in democracy and the rule of law. Even autocratic Russia was lumbering toward a constitutional monarchy. Then came World War I, the seemingly senseless slaughter that led to the undermining of faith in Western institutions and to the rise of communism, fascism and Nazism. It took another world war to bring down Nazism and fascism. It took 40-plus years of Cold War to bring down Soviet communism. So in a sense we are where we were spiritually and diplomatically in 1914.

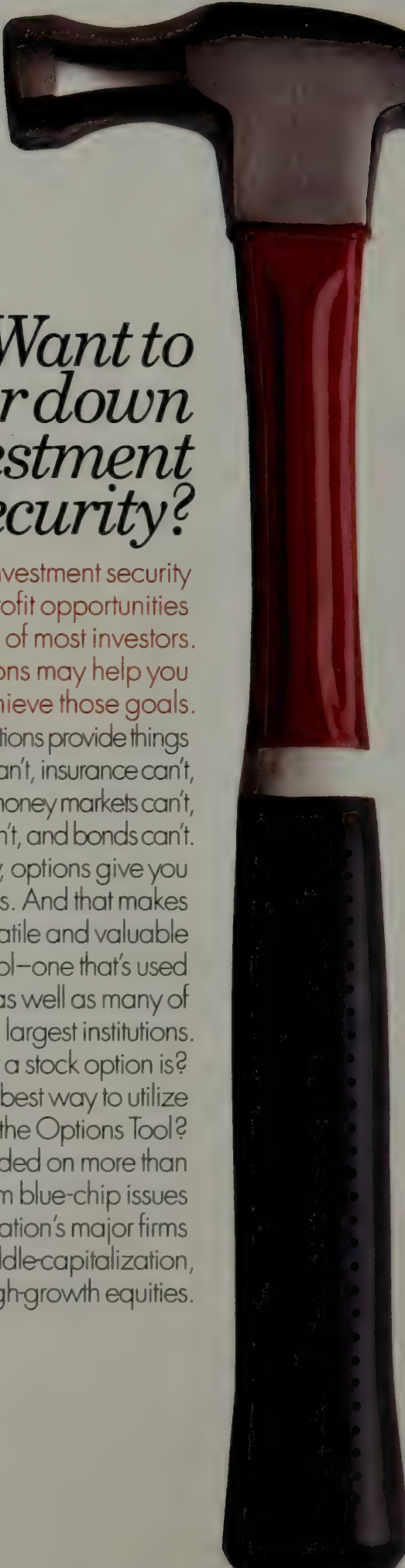
As Europe was careering toward war in 1914, very few people realized the magnitude of the impending catastrophe. Sir Edward Grey was one of those who did, and, as many of you know, he said: "The lamps are going out all over Europe; we shall not see them lit again in our lifetime."

Ladies and gentlemen, if the United States recognizes and develops its strengths at home and pursues strong and responsible policies overseas, those lamps can be relit, not only in Europe, but throughout the world, not only for our generation, but for generations to come.

Thank you very much.



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h more December-quarter earnings reports now in, 1992 earnings on the S&P 500 index seem likely to settle around \$21.71 (after nonrecurring items), well ahead of the \$15.97 recorded in 1991. This is despite horrendous writeoffs at IBM and General Motors.

Earnings gains thus bring the trailing price/earnings ratio of the S&P down to 24. That's slightly lower than a few months ago, but still high by historical standards. Note also that the average dividend yield of stocks (see next page) has been cut nearly in half since 1984, to under 3%.

Philip Roth, Dean Witter's chief technical market analyst, is one of those very skeptical about further gains in the overall market. But he does find some pockets of value, for example in materials suppliers like Cyprus Minerals and Nalco Chemical, and big oil companies like Chevron and Mobil.

Special focus

It rarely makes sense to pay very high fees to get into even a top-performing fund. But to pay high fees and get mediocre performance? Buyers must be crazy. These funds all underperformed the S&P 500 index over the last ten years, yet are running up expenses higher than those of the average fund.

Pricey funds

Fund	10-year annualized total return	5-year cumulative expense
American Inv Growth	2.5%	\$126
Natl Worldwide Opp	3.9	165
Lord Abbett Dev Growth	5.9	114
Merrill Lynch Spec Value	6.2	142
Alliance Global-Sm Cap	7.3	169
Security Ultra	7.7	130
Rea-Graham Balanced	8.3	150
Security Investment	8.7	120
Oppenheimer Fund	9.2	112
Putnam Strategic Inc	9.6	118

Source: Morningstar.

The overall market



Closeup on the market

Index or investment	2-week change	% change from 1 year ago	5-year high
Barra All-US index	-4.3%	3.8%	-4.3%
S&P/Barra Growth index ¹	-4.7	3.6	-5.9
S&P/Barra Value index ²	-2.9	11.0	-3.1
Dow Jones industrials	-3.4	0.7	-4.1
S&P 500	-3.9	4.3	-3.9
NYSE	-4.0	4.1	-4.0
Nasdaq	-6.5	4.8	-6.5
Amex	-3.2	-2.6	-3.7
EAFE ³	2.4	-4.9	-27.6
CRB futures index ^{4,5}	1.1	-4.2	-25.7
Gold ⁵	0.5	-6.4	-34.2
Yen ⁵ (per \$US)	-4.3	-7.0	-27.3
Oil ⁵	-4.4	4.6	-52.9

The best and worst performing stocks⁶

Best	Price	2-week change	1993 EPS ⁷	Worst	Price	2-week change	1993 EPS ⁷
ICN Pharmaceuticals	14 1/4	37%	NA	Kentucky Cent Life Ins	23 3/4	-65%	\$1.35
Hollywood Park	16 3/4	24	NA	Netrix	9	-59	0.56
Input/Output	13	24	\$1.36	PacificCare Health Sys	34	-40	2.60
Wheeling Pittsburgh	9	22	NA	Student Loan Corp	15 1/2	-38	NA
Global Natural Res	7 1/8	19	0.27	Checkpoint Sys	12	-38	0.70

The best and worst performing industry factors^{8,9}

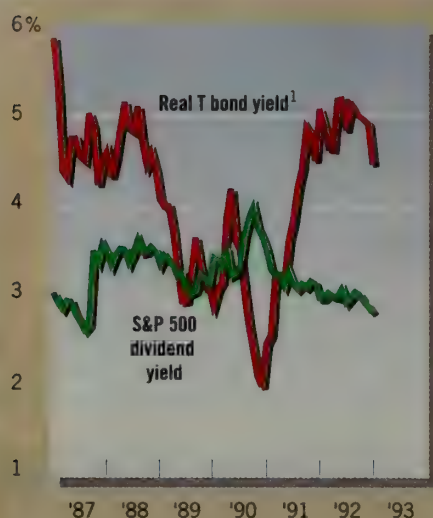
Best	2-week change	Since 12/31/92	Worst	2-week change	Since 12/31/92
Forest products	7.7%	25.3%	Coal & uranium	-14.3%	-13.8%
Precious metals	3.1	5.7	Health care	-9.7	-13.5
Oil refining & distribution	0.0	3.1	Apparel, textiles	-9.3	-6.3
Misc mining & metals	-0.2	6.6	Leisure, luxury	-9.2	-10.8
Telecommunications	-0.7	3.2	Misc finance	-8.9	-0.8

Note: Data for period ending 2/18/93. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. DRs, REITs and closed-end funds are excluded. ¹ Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above-average earnings growth. ² Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³ A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴ Index of 21 commodity futures. ⁵ Knight-Ridder Financial Information. During the last two weeks. ⁶ Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. ⁷ Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

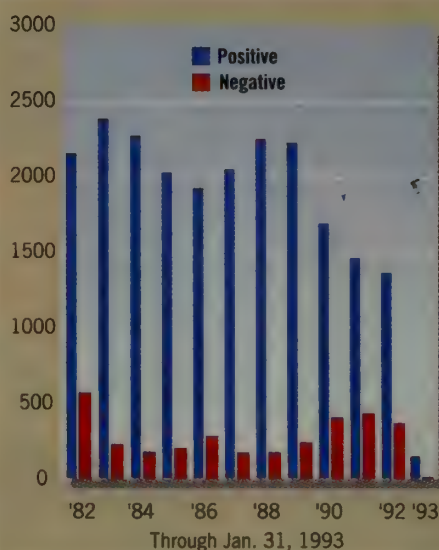
DIVIDENDS REVIEW

BY GILBERT STEEDLEY

Corporate vs. government yields



Corporate dividend revisions



Representative industry yields

Industry	Yield	Payout ratio ²	P/E	Industry	Yield	Payout ratio ²	P/E
Auto & truck mfg	5.1%	NM	NM	Household products	2.4%	35%	19
Banking	4.1	34%	9	Integrated petroleum	4.9	103	17
Basic chemicals	4.3	97	21	Pharmaceuticals	2.1	53	17
Electric utilities	6.6	71	18	Retailing	1.8	24	35
Electronics	1.5	27	17	Telecommunications	4.3	59	11

Last year was a bust for investors who like dividends. Not only were yield paltry—Standard & Poor's 500-stock index ended 1992 with a yield just below 3%—but the payments on the S&P 500 rose only 1.5%, to \$12.38.

This year is off to a better start, however. Standard & Poor's reported 20 dividend cuts or omissions in January 1993, down 10% from January 1992. Among the casualties were IBM, Sears, Food Lion and Enserch. On the brighter note, 146 companies (out of 1,807 dividend payers in the S&P universe) raised their dividends in January, a count that was up 18% from January 1992.

On balance, predicts S&P market analyst Arnold Kaufman, dividends on the S&P 500 index should climb to a healthy 6% this year, to \$13.10. That would put the coming yield on the index at just over 3%, based on the recent closing price of 434.

The table lists ten high-quality bank stocks that yield at least 3% and have a five-year dividend growth rate of at least 10%. Each bank is rated B+ or better for balance sheet strength in the *Value Line Investment Survey*. Bankers Trust NY, for example, has raised its dividend in each of the past 14 years, with annual increases averaging 10%.

Solid banking & financial stocks

Company	Price	Indicated rate	Yield	EPS ³
Bankers Trust NY	66 ³ / ₈	\$ 3.12	4.7%	\$ 8.83
Comerica	30 ¹ / ₈	1.02	3.4	1.92
CoreStates Financial	53	2.16	4.1	4.54
First Hawaiian	28	1.12	4.0	2.70
First of America Bank	40 ¹ / ₈	1.40	3.5	2.86
JP Morgan	61 ³ / ₈	2.40	3.9	6.93
National City	51 ¹ / ₄	2.08	4.1	4.19
PNC Financial	29 ³ / ₈	1.14	3.9	2.39
US Trust	53 ⁵ / ₈	1.88	3.5	3.76
Washington Federal S&L	25 ³ / ₄	0.96	3.7	2.55

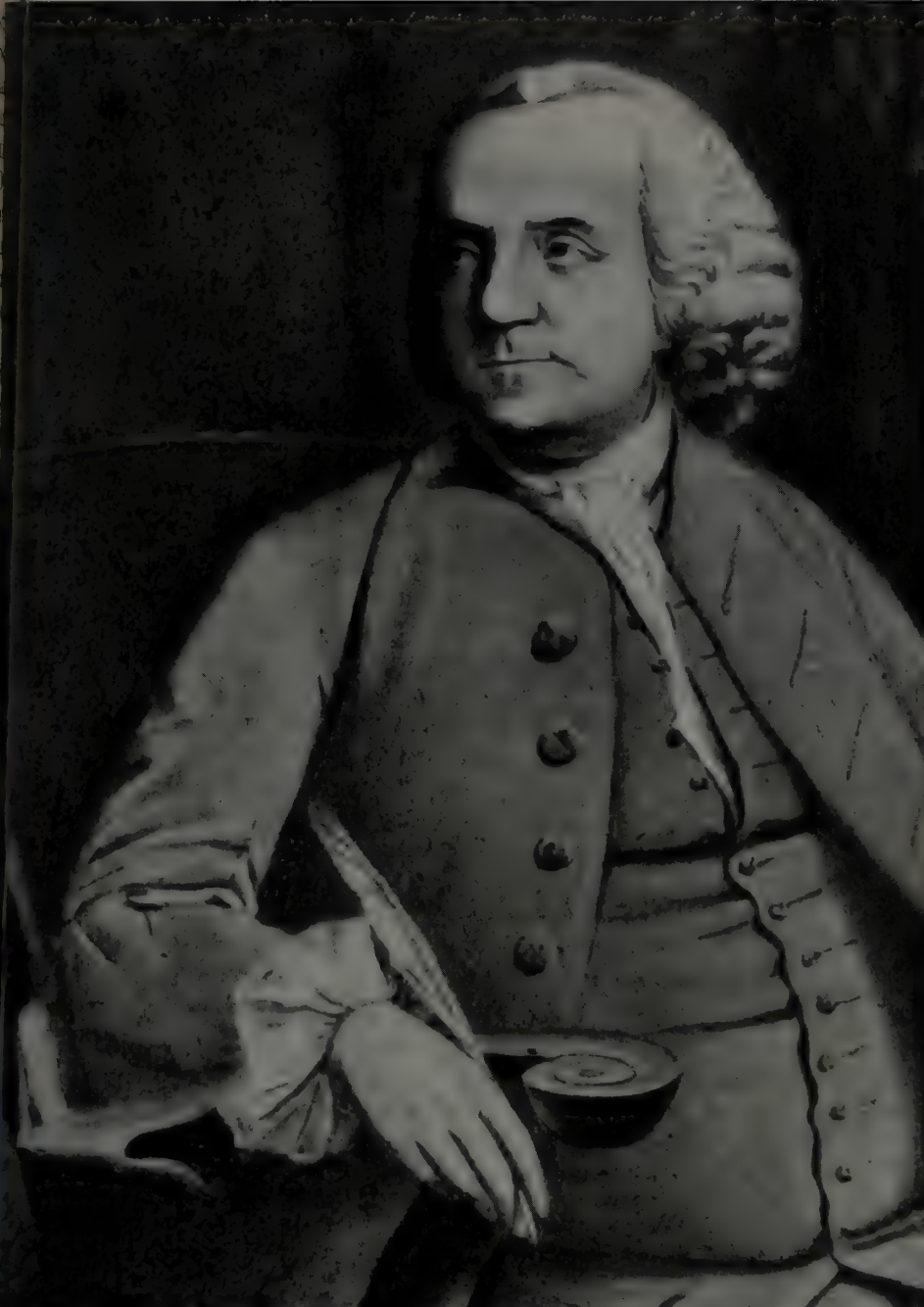
Solid dividends

Company	Price	Indicated rate	Yield	Payout ratio ³
Aftel	47 ¹ / ₈	\$ 1.60	3.4%	66%
American Brands	35 ¹ / ₈	1.97	5.6	46
Brown-Forman B	78 ¹ / ₄	2.72	3.5	49
Harsco	38 ³ / ₈	1.40	3.6	48
John H Harland	24 ⁷ / ₈	0.94	3.8	59
Lincoln Telecom	24 ³ / ₄	0.88	3.6	49
Minnesota Mining & Mfg	103	3.20	3.1	58
Standard Register	17 ⁵ / ₈	0.64	3.6	46
Sunstrand	36 ¹ / ₈	1.20	3.3	47
Tennant	46	1.28	2.8	50

Note: All data, except where footnoted, as of 2/18/93. ¹Yield on 30-year Treasuries adjusted for inflation using the trailing 12 months' increase in the Consumer Price Index through 1/31/93. ²Capitalization-weighted. Dividends divided by net income; all extraordinary items are excluded. ³Trailing 12 months. NM: Not meaningful. Sources: McGraw-Hill, Value Line, via Lotus One Source; Standard & Poor's.

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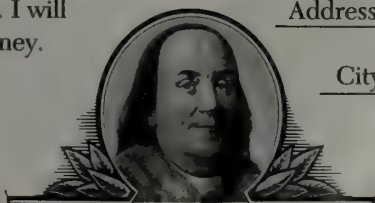
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Pimco's William Gross has delivered equity-like returns from bonds.

Hot hand

By Mary Beth Grover

BEFORE ENLISTING in the Navy, William Gross spent the summer of 1966 at blackjack tables in Las Vegas. He was armed with a psychology degree from Duke, the gambling book *Beat the Dealer* by mathematician Edward Thorp and \$200.

By the time he donned his uniform, Gross was worth \$10,000.

His Vietnam tour up three years later, Gross decided Wall Street was a smarter place to gamble than Vegas. To better his odds, he got a master's in finance at the University of California at Los Angeles. This time Gross' timing was terrible. In a sluggish market, he had to settle for a stodgy job as a private placement analyst for Pacific Mutual Life Insurance Co. in Los Angeles. Even there he knew how to calculate the odds. One of his first loans was for \$10 million to an upstart retailer called Wal-Mart.

Before long the Ohio native was running Pacific Investment Management Co., backed by Pacific Mutual and a group of partners. Since 1973 Gross, now 48, has run the Newport Beach, Calif.-based firm. It now handles \$41 billion in bond money, \$8 billion of it in 15 no-load funds. "Sort of like the blackjack table, only 100 times better," says Gross—echoing another successful Newport Beach moneyman, none other than math whiz Ed Thorp.

Better because Las Vegas doesn't pay winners with recurring annual fees—as money management does. Gross' firm raked in more than \$100 million in fees last year, and Gross gets roughly a tenth. He lives in a \$7 million home in ritzy Laguna Beach.

Gross is far more eclectic than most bond fund managers. They may specialize in, say, junk bonds or Ginnie Maes or foreign governments or short- or long-term Treasuries. Gross pays little attention to categories, investing wherever he sees a good deal.



William Gross, manager of the Pimco Funds
"Sort of like the blackjack table."

Take a gander at his Total Return Fund: As of Feb. 19, its top five holdings were 30-year Treasury bond futures, 8-year French government bonds, collateralized mortgage obligations issued by the Resolution Trust Co., 30-year senior bonds of AMR Corp. and 11½% debentures issued by CTC Mansfield, a coal company in Ohio. The portfolio also included paper from such off-brand issuers as the Canadian Wheat Board and the Province of Alberta.

By refusing to pigeonhole his portfolios, Gross has rung up stellar returns. His Total Return Fund, for example, has compounded by 12% annually over the past five years, beating Lehman's aggregate bond index by 1.2 points. Every one of last year's top five intermediate bond funds is managed by Pimco.

"I learned from blackjack when it was appropriate to make big bets and little bets," says Gross. He played a gutsy hand last fall. As Germany's refusal to cut interest rates sent Europe's bond markets into a tailspin, Gross doubled his holdings in Euro-

pean bonds to \$8 billion. "French and German bonds were being thrown away," he recalls. So far the purchase has won \$700 million in gains for Gross' International, Long Duration and Total Return funds.

Why is Gross buying the 7-to-3 year debt of beleaguered American United and Delta airlines? He expects them all to keep flying, making yields of up to 9.75% irresistible. "Look to the darkness rather than the light," says Gross. Citicorp's balance sheet was a dark and scary place when Gross bought the bank holding company's 12.5%, 12-year notes. Those notes were called in January, but Gross netted a total return of 14% over two years.

These days Gross has about 40% of his assets in bond futures—two-thirds in the U.S., the rest abroad. Here he's betting that interest rates will keep dropping at home and overseas. In question, Gross is taking chances. If rates rise suddenly, fund investors will lose money. The overall interest rate sensitivity of the Total Return Fund is about the same as that on a 5½-year zero coupon bond.

Is this chance worth taking? Yes, says Gross: The market is overestimating the risk of future inflation. He's also counting on President Clinton's plan to shorten the average maturity of Treasury borrowings. That should reduce the supply of long-term bonds, raising their prices and lowering their yields. Gross thinks 30-year Treasuries, recently yielding 7.1%, will approach 6.75% by summer.

How can investors tap into Pimco's expertise? It takes a minimum \$500,000 to invest directly, but you can buy small lots through Charles Schwab or Jack White. On a \$25,000 purchase, Schwab charges a 0.4% commission. Either way, you won't have to worry about those management fees eating you alive. Pimco's Total Return Fund's overall expenses run a stingy 0.43%.

Mind you, Gross doesn't promise that newcomers will do as well as older customers. Like any smart winner, he knows you can't go on winning indefinitely. "We are definitely at the tail of the bull-market coming," he warns. Sounds like a good time to invest with someone who knows how to calculate the odds.

Don't fret over the strange trading between Marty Whitman's two funds. The crafty money manager is simply saving taxes for his investors.

Houdini

IT'S A MAGICIAN for you. Martin Whitman, manager of the open-end Equity Strategies Fund, aims to make net asset value, now \$33, pop up over \$40 overnight.

But you can't get a piece of this magic—the fund is closed to new investors. We present the magic by way of illustrating what a skillful money manager can do for his investors, in part to protect them from a dose of double taxation. If you are interested, you may want to buy into Whitman's Third Avenue Value Fund, which is still open and where the tax tricks should benefit investors in years to come.

Equity Strategies is run by Whitman, 68, the veteran bankruptcy lawyer. Some years ago he had the chance to make a big bet in the debt of an old services company, now called Nabors Industries, as it came out of bankruptcy. It was a smart bet. The company was converted into Nabors common, now worth \$83 million, six times what the fund paid for the stake. The trouble is, that lopsided winner qualifies Equity Strategies from favorable tax treatment. In order to pass

Were he to take his profits in Washington Post or Coca-Cola, Berkshire shareholders would incur two layers of tax on the gain, one a corporate tax paid by Berkshire, the second a personal tax when they sell their Berkshire shares. That's one reason Buffett hardly ever sells anything.

Whitman, though, wants to sell the Nabors stock. How to do it without sticking Equity Strategies' shareholders (he's one of them) with a double tax? Via a chink in the Internal Revenue Code called a C reorganization. The C reorg allows one company to acquire another one tax-free if it pays for the purchase with its own stock. The provision has probably never been used by a mutual fund—but, as Whitman points out, "funds don't usually get in this bind."

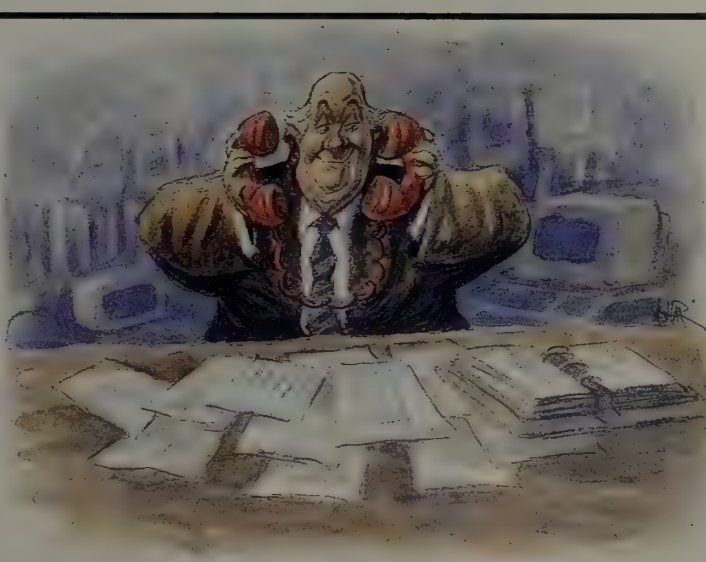
How will it work? After liquidating Equity Strategies' minor holdings, Whitman will be left with a corporation whose sole significant asset will be Nabors stock. He will then have Nabors buy Equity Strategies, paying for the purchase with what will presumably be an identical quantity of Nabors stock. Those new shares of

Nabors will then be distributed to the fund's shareholders. Nabors, of course, can then cancel the shares it gets from the fund and be left with the same number of shares outstanding it had before. Will Nabors inherit Equity Strategies' unrealized capital gain? It would if it were buying assets such as real estate or a going business. But not in this case. Corporations are exempt from tax on profits in their own shares.

As of now, Whitman carries a potential tax liability on his fund's books for the Nabors shares. But his distribution plan should succeed in vaporizing both the fund and its corporate tax liability. Only a personal tax will remain: If and when a fund investor sells the Nabors stock, he will have a capital gain equal to the difference between what he paid for his Equity Strategies shares and what he gets for the Nabors.

If Marty Whitman's unorthodox investment style appeals to you, you can buy into his Third Avenue Value Fund, a sister to Equity Strategies that has been playing a helpful, if eyebrow-raising, role in liquidating the latter by trading with it. Third Avenue has acquired such illiquid Equity Strategies holdings as Empire Gas Corp. convertible debentures, Royal Palm Beach Colony partnership units and common stock in Liberty Homes and National Loan Bank, a liquidator of distressed Texas bank loans. Third Avenue has delivered an impressive 32% compound annual return over its 2½-year existence. The main drawback is its 5.75% sales load.

One of Third Avenue's more intriguing positions is a 5% block of Danielson Holding Corp., successor to the failed Mission Insurance Group. Whitman, who controls Danielson, aims to capitalize on its more than \$1 billion in net operating loss carryforwards, most of which expire between 1999 and 2002. He can do that by having Danielson acquire profitmaking businesses. With taxes going up under Clinton, the kind of tax-beating strategies Whitman has mastered should come in right handy. —J.Z. ■



Brian Alper

Now it's possible to run a fund as a taxable corporation. Warren Buffett's Berkshire Hathaway, a diversified investment company, is taxed just as Wal-Mart is. But the arrangement strips Buffett's flexibility.

If you want a piece of the rapidly growing software industry, you don't have to buy a big name like Microsoft or Novell.

Between the toes of giants

By Eric Hardy and Robert Rosenstein

SOFTWARE COMPANIES couldn't be happier about the collapse in computer hardware prices, since cheap hardware expands the population of software buyers. Sales of U.S.-based software and service vendors have climbed at an 18% compound annual rate over the past three years, to an estimated \$25 billion last year.

Five giants—Microsoft, Lotus, Borland, WordPerfect and Novell—own 71% of the PC software market. These companies have their strength in operating system, spreadsheet, database, word processing and networking software. Since everybody knows this, their stocks are, to put it mildly, fully priced. But those

basic programs aren't the whole software story. Dean Witter analyst Timothy McCollum points out that the average user of a Windows operating system will also buy two to four Windows-specific programs, programs that don't have to come from Microsoft.

Home education is one of the fastest-growing software segments, but Microsoft, Lotus and Borland aren't big in it. It is little outfits like Software Toolworks that are selling programs to help you learn how to forecast the weather, touch-type, or play the piano or chess.

Smaller software companies are an excellent way to participate in the

computer sector, says Daniel Leonard, whose Financial Strategic Technology Fund rose 11% over the last months. His \$256 million portfolio includes not a single hardware maker but does have Oracle Systems, which sells database management software and Banyan Systems, which sells computer networking software.

Don't go into these stocks looking for any Ben Graham-style value-price/earnings ratios as high as Microsoft's (which is 29) are not common. Realizing this, Leonard looks especially for high growth in sales and earnings to select potential winners.

The table lists 15 small software companies—those with sales under \$200 million and market capitalizations under \$500 million. Each firm is expected to increase profits this year and has a price/sales ratio no greater than 6.4. In this ratio, price means sum of debt outstanding and market value of common stock.

Software Publishing has sales of \$156 million and a price/sales ratio of 0.9 (to Microsoft's 8.1). Its Hard Hat Graphics is a leader in PC graphing and charting. Aldus Corp., a vendor of desktop publishing products for business applications, is a little more expensive at 1.5 times sales but enjoys a better profit margin.

Second-stage software

Company/software products

	Recent price	—Earnings per share—		P/E 1993 est	Sales (\$mil) ¹	Sales growth ²	Price/sales
		latest 12 mos	1993 est				
Systems Center/networking	8	\$-1.15	\$0.64	12.5	\$126	35%	0.9
Phoenix Technologies Ltd/compatibility tools	5½	0.20	0.45	11.4	71	10	0.9
Software Publishing/graphics, word processing	117½	0.02	1.10	10.8	156	15	0.9
Ross Systems/business services	10½	0.21	0.42	25.0	76	NA	1.3
Aldus/desktop publishing	17	0.62	0.84	20.2	168	28	1.5
Continuum/insurance	19%	0.85	0.89	21.8	126	24	1.7
Marcam/production aids	18¾	0.93	1.14	16.4	80	NA	1.9
Frame Technology/desktop publishing	13	0.19	0.73	17.8	42	NA	2.0
Easel/graphics	10	-0.52	0.29	34.5	28	NA	2.0
Software Toolworks/education, entertainment	7½	-0.61	0.23	32.6	103	106	2.0
Intersolv/programming aids	8¾	0.56	0.72	12.2	79	55	2.1
Electronics for Imaging/desktop publishing	16¼	0.74	0.83	19.6	16	NA	3.5
Cerner/health care	42¾	1.29	1.64	26.1	75	22	4.3
Sulcus Computer/information retrieval	8	0.36	0.60	13.3	18	104	4.7
Caere/optical character recognition	20	0.68	0.83	24.1	32	NA	6.4

¹Latest fiscal year. ²Compound annual rate, past three years. ³Debt plus market value of common equity, divided by sales.

Sources: Institutional Brokers Estimate System; Value Line Database Service via Lotus One Source.

Products of these 15 fledgling software firms complement Lotus or Microsoft packages without necessarily competing with them.

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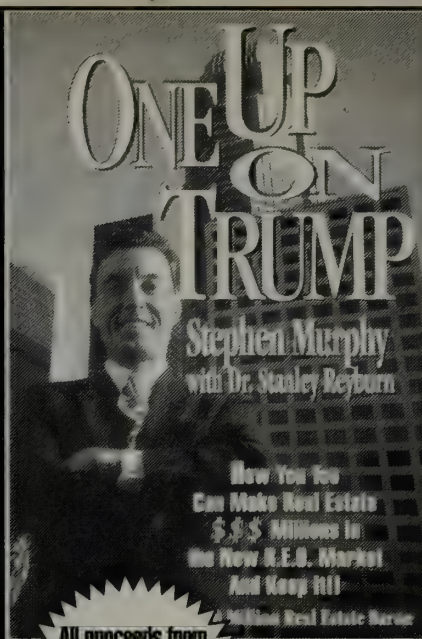
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Shearson FMA	\$100	Yes	Yes	No ³	No	Yes	No	\$10,000
Prudential Command Account	\$75	Yes	Yes	Yes ²	No	Yes	No	\$15,000
Dean Witter AAA	\$80	Yes	Yes	No	No	Yes	No	\$10,000

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Los Angeles Times METRO

Saturday, October 17, 1992

Shelter From the Storm

Former Homeless Vet Donates House to Give Others New Direction

By Bob Pool Times Staff Writer

Talk about flashbacks. A group of homeless veterans faced a grimly

The sprawling four-bedroom house will continue to be used by veterans who are trying to kick drug and alcohol problems and re-enter the civilian work force through an organization.

The Hartford Courant

Volume CLIV Number 359

Thursday, December 24, 1992

Newsstand \$5

Millionaire buys home for veterans

By Gary Libow
Courant Staff Writer

NEW HAVEN-- After surviving a nightmarish Vietnam tour in the late 1960s, Stephen Murphy almost lost his battle against desperation, the bottle and homelessness when he returned home.

But through rehabilitation, the Army veteran straightened out his personal and professional life and is now dedicating himself to

reviving other destitute veterans. His work is about to pay off for some of Connecticut's veterans, who will live in a house Murphy has bought at 221-223 Howard Ave.

The multimillionaire investment counselor just completed a \$127,000 deal for the two-family home. About six veterans will live there in a supervised setting while under treatment at the nearby Veterans Administration Medical Center in West Haven, Murphy said.

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THE Daily Breeze



A NEW DIRECTION

Vietnam veteran remembers life as homeless alcoholic

By Lori Schweitzer
STAFF WRITER

In the Marina del Rey penthouse office where he runs a \$28 million commercial real estate

desk, he can look out to a wide angle view of the Pacific Ocean or turn around and catch the stock prices running across the screen of his television.

...the pros noted that Alan Greenspan was seated next to Hillary Clinton, their bullishness on short-term Treasuries was seriously reinforced.

Buy Treasuries Right now

BY MATTHEW WINKLER



Matthew Winkler is editor-in-chief of Bloomberg Business News.

PRESIDENT CLINTON has proposed one of the biggest tax increases in U.S. history. This may or may not shrink the budget deficit, but it is good news for holders of long-term Treasury bonds. If you don't own one, you should.

"The yield on the Treasury's benchmark 30-year bond, now about 7%, is heading to 6%," says John Jenney, money manager at Smith Affiliated Capital.

Some people thought Fed Chair Alan Greenspan looked a bit uncomfortable when he was seated next to Hillary Clinton during her husband's first speech to Congress. Nevertheless, the seating arrangement was symbolic and bodes well for long-term interest rates.

That was Hillary's way of showing she and William Jefferson were going to be downright cozy with Greenspan. Reagan and Bush may have appointed Greenspan, and he is not wholly like the Clinton tax package, but he's getting from the Clintonites what he has long insisted on getting: a serious move toward cutting the \$325 billion federal budget deficit. Greenspan, like Paul Volcker before him, pined for the day

a President would tell Congress that deficits matter and must be reduced. Now that that day has come, don't expect the Fed to raise interest rates anytime soon.

Every bond trader knows deficit reduction is bullish for Treasuries. If Clinton makes headway in reducing the deficit, long-term interest rates will decline and the bond market will rally. That's because lots of people, including money managers from such big institutions as corporations, banks, central banks and pension funds, buy Treasury bonds because there is no alternative. (They have to buy the highest-rated debt for pension liabilities or, in the case of central banks, something equivalent to sovereign paper for current account balancing.) If paring the deficit reduces the supply of fresh Treasury paper, therefore, pressure from these compulsory buyers will inevitably push yields down and prices up.

Treasury bonds have been a terrific investment since Feb. 18, 1992 when Clinton became the first future president to finish second in the New Hampshire primary. The market did well for the same reason Clinton did well. It was the stupid economy.

As the recovery generated few jobs, anemic production and meager sales, interest rates tumbled across the board. A five-year Treasury note, for example, provided a total return of 13.2% since Clinton dubbed himself "the comeback kid." Owning three-month T bills during the same period would have netted a puny 3.85%.

Until recently, the pros in the bond market didn't pay much attention to Clinton because they didn't have to. Treasuries have proved to be one of the surest and least risky markets for

banks and other lending institutions to make money. These folks realized a year ago that it is cheaper, safer and consistently more lucrative to take short-term deposits and buy intermediate Treasuries than make old-fashioned loans.

During the past year, banks transformed themselves into bond funds, holding portfolios of bonds instead of loans. These transactions make a lot of sense because there is no credit risk, only the risk that interest rates might climb. That risk was minimal as long as the economy remained in a funk.

So while Aunt Agatha continued to make deposits into a savings account earning little more than 3%, banks were taking her deposits and buying five-year notes yielding more than 5%. Banks have been earning so-called spreads of about 230 basis points since these trades swept the bond market last year. They need only stable rates to make this money. Declining rates last year were a bonus.

How have they performed?

Look at bank stocks. NationsBank, now considered the Salomon Brothers of the 1990s because of its bond trading prowess, has climbed 18.36% since the New Hampshire primary. BankAmerica has climbed 28.39% during the same period.

Now that the economy shows signs of getting smarter, bonds still may prove the right investment, because Clinton's deficit reduction plan could diminish the supply while all these lending institutions continue to take advantage of the yield disparity between what Aunt Agatha gets and what Uncle Sam offers.

But watch the seating arrangement next time Alan and Hillary attend the same function. The above scenario remains bullish as long as Alan keeps sitting next to Hillary.

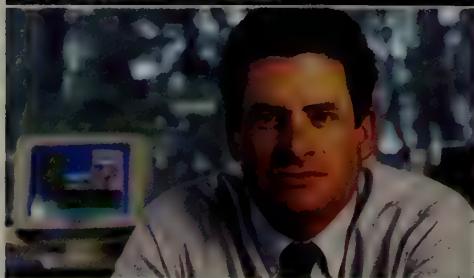
If the budget deficit declines \$100 billion during the next four years, why should interest rates fall? Foreigners, who like Treasuries partly because it's nice to lend to the world's only policeman, have been begging for U.S. deficit reduction for ten years.

Finally, they may get their wish. When that happens, they probably will buy even more Treasuries just to encourage the wayward debtor's newfound rectitude. Isn't it wonderful to be patriotic? ■

Asset allocation is the broker's latest gizmo. It's not a bad gizmo, but you can save lots of money by doing it yourself and bypassing the broker.

Design your own

BY KENNETH L. FISHER



Kenneth L. Fisher is a Woodside, Calif.-based money manager. His third book is *100 Minds that Made the Market*.

LAST YEAR brokerage firms put software on their terminals and now sell "asset allocation" for big fees to folks like you. It's a great revenue producer for the brokers. A billion bucks is going into it monthly. They charge you about 3%—every year. In return, they regularly adjust the allocation and help you parcel out money into appropriate asset styles among a screened list of specialty money managers or mutual funds.

Two questions arise. First: Should you bother? Yes. Smart asset allocation can do as much for investment performance as the choice of money managers or stock selection. And using asset allocation protects you from indecision and timidity. Too many investors, on their own, penalize long-term results by keeping too much of their savings or defined contribution plans, like 401(k)s, in cash.

Recently I heard SEC Commissioner J. Carter Beese Jr. grouching on the SEC's fear that the fast-growing area of individual-controlled defined contribution plans will keep growing but generate poor investment returns because folks hold too much cash—and accordingly won't do well enough to afford retirement. Sticking to a fixed-asset allocation plan protects from this danger.

Second question: Do you need a

broker who eats up a good chunk of your return in fees? No. You can easily allocate your own assets.

The first step: Don't be awed by this fancy term. It simply refers to how you spread your available assets among stocks, bonds and cash based on your age. I'm going to show you how you can do it on your own and save those 3% fees.

Most corporate pension fund asset allocations end up at about 54% stocks, 32% bonds, 14% cash. Pension funds pay fat fees for extremely fancy studies that tell them to do this. Since they all end up with very similar asset allocations, what do they get from these studies? Litigation protection. They have a legal fiduciary responsibility to employees to cross every "t" and dot every "i" (i.e., the corporate pension plan can be sued).

These corporate plans are based on a simple algebraic formula for how much of varying asset categories to own, based on the ages of the participants. In your case, there is only you, so it's very much simpler.

Here's what you do: How old are you? If you are 20 years old and just starting, hold 90% equities. If you are 80, you can't risk much, hold only 10% equities. If you are in-between in age? It's a straight-line function; as your age increases, cut back equity. At 40 you are down to 63% equities. At age 60 you are down to 40%.

Until you are 40, as you slowly cut back equity, year by year, it all goes into bonds, which in the longest term also beat cash. After 40, as you age and slowly cut equity exposure, half of what comes out of equities goes into cash and half into bonds. So, for example, at age 65, you are 30% equity, 54% bonds and 16% cash.

Assuming you don't want to make studying the stock market a major part of your life, use good no-load mutual funds for the bond and equity

portions. Fund families like Vanguard, Fidelity or T. Rowe Price have good no-load products.

Within equity you break it by style. Here, too, to make it easy and cheap you can use no-load mutual funds with annual fees of 1% or less.

Unless you are an active and shrewd investor, in which case you don't need my advice on asset allocation, I wouldn't suggest putting all your equity eggs in one basket. Split equity money according to market segment. For details on mutual funds, study the FORBES mutual fund survey. The latest annual one is Aug. 1992; the latest interim one, Feb. 1993. Or *Morningstar* at your library.

Most allocation studies suggest about 15% of equity money be in foreign stocks. (Thus, if you are at age that calls for 50% in equities, you would put 7.5% of your total assets in foreign stocks.) Here, my favorite mutual funds are Harbor International, Lexington Worldwide Emerging and Scudder International. Own two of the three.

For U.S. equities, weight styles to their average share of the market over the last 20 years. For example, about 45% of U.S. equities historically are big-cap growth stocks. For representation here my favorite funds are SteinRoe Stock, T. Rowe Price Growth Stock and 20th Century Growth or 20th Century Select.

Big-cap value stocks average about 37% of the market over time. For the rest of your holdings, I suggest Baronson Value, Dodge & Cox Stock, Windsor II. About 9% of U.S. equities are small-cap growth. Use Columbia Special, Scudder Development or T. Rowe Price New Horizons. Finally, another 9% of your allocation to U.S. equities should go into small-cap value. Try Nicholas II, Pennsylvania Mutual, Southeastern Small-cap or T. Rowe Price Small-cap Value.

Each year adjust your equity, bond and cash balances by the formula. Then be patient and relish the 1½% more per year you saved by doing it yourself. By using these no-load mutual funds you will be paying annual management fees of 1% or less, not the 3% brokers will charge you. And you don't need expensive studies. After all, you are most unlikely to sue yourself.

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be around for generations to come. Our neighboring Forbes Trinchera Ranch covers over 400 square miles, which is our firm commitment to the future of this unspoiled paradise in Colorado.

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"Buy 'em when they're hot"—that's terrible advice to give to fund buyers.

Sprinters versus long-distance runners

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (Dearborn Financial Publishing).

RECENTLY, an article in the *Wall Street Journal* gave investors some bad advice on mutual funds. The newspaper apparently swallowed an argument based on faulty statistics and faulty logic. Its Money & Investing section headed the article "Buy Last Year's Hot Funds."

By contrast, *FORBES* has preached for years that investors should seek consistent long-term performance in picking funds rather than a single year's hot performance. Virtually every serious study into the use of performance statistics supports the *FORBES* view.

The *Journal*'s journey down this primrose path started innocently enough. The newspaper set out to measure the relative performances of three different investors, each of whom buys funds that are ranked in the top 25% for past performance, and holds them for five years.

One of the *Journal*'s hypothetical investors picked funds that did great in the latest year. A second picked funds that had sparkled over five years. The

third chose on ten-year performance. The exercise was repeated for every year from 1970 to 1992.

The *Journal* proudly trumpeted the result: Investors did best by always picking last year's hot funds.

Don't believe it. The *Journal* study is shot full of holes.

Professor Josef Lakonishok of the University of Illinois at Urbana-Champaign points out that the study suffers severely from what statisticians call a survivorship bias. The *Journal* simply ignored all funds that have gone out of business over the years—which is a huge error because over half the funds that traded in the 1970s no longer exist. The reason this leads to a bias, according to Lakonishok: A fund with an outstanding one-year but dismal ten-year record is more likely to go out of business than one with a great ten-year record but mediocre one-year performance. Had these discontinued funds been included, Lakonishok thus suspects, the pattern found by the *Journal* study would have disappeared.

An example: Imagine following the *Journal*'s advice five years ago at the beginning of 1988. Since you are betting on the previous year's hot funds, you buy Oppenheimer's Premium Income fund, 1987's top-performing diversified fund. You proceed to underperform the market by more than 10% annually over the next several years. But then, in 1991, Oppenheimer discontinues the fund and, voilà, the *Journal* ignores it altogether.

But that's only half the bias. If at the beginning of 1988 you ignored the *Journal*'s advice and bet on the ten-year winners, you would have

shunned the Oppenheimer Premium Income fund—since its 1978-87 performance placed it in the lower of the tiles. Its subsequent loss vindicated your decision to shun the fund, yet again—the *Journal* ignored it.

Apart from statistical defects, the *Journal*'s conclusion is wrong on other grounds. In essence, all it shows is that investment styles go in and out of favor. Small-cap funds were hot in the late 1970s and early 1980s, for example, before turning cool during the mid- and late 1980s. Value growth investing underwent similar cycles. The investor who confined purchases to funds at the top of their trailing five- or ten-year rank wouldn't buy hot funds until they were near the end of their hot streak.

So what? All last year's results tell us is which investment style currently is hot. If you want to bet on that style, you still would be better off picking the funds within that style that had the best long-term performance.

My experience monitoring investment letter performance has taught me that one-year records are extremely unreliable guides to future performance. More often than not, last year's best go on to become the year's worst.

This is essentially the same conclusion that was reached last year in a major study by Lakonishok and other academics on the pension fund industry (*Brookings Papers on Economic Activity*). What is true of pension funds is also true of mutual funds. One-year sprinters rarely go the distance.

In contrast, performances over several years and longer do correlate with the future. This is especially so, I have found, when performance is adjusted for risk.

In my just-released book, *The Hulbert Guide to Financial Newsletters*, I report just four letters ahead of the market on a risk-adjusted basis in the mid-1980, when I started monitoring the industry. They are: *Growth & Income Outlook* (edited by Charles Allmaras), *Zweig Forecast* (Martin Zweig), *the Chartist* (Dan Sullivan) and *Value Line Investment Survey* (Value Line, Inc.). I'll bet the *Journal* these letters will do far better over the next five years than last year's funds. Any takers?

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When you look at the numbers, you might conclude that the stock market looks high, but it looked high in 1960, too.

Inflation is the key

BY R.S. SALOMON JR.



R.S. Salomon Jr. is chairman and chief executive of Salomon Brothers Asset Management Inc. and portfolio manager of Salomon Brothers Capital Fund Inc. Research assistant: Caroline Davenport.

IT HAS BECOME fashionable to say that dividends do not matter, only capital gains do. I disagree. Dividends account for a solid 40% of the 12% that stocks have returned on average over the past 67 years.

Dividend yields generally trade in a range of 3% to 6%, although the level has dropped as low as 2.87% and has gone as high as 8.77%. When the level drops below 3%, investors worry. Today the dividend yield is 2.9%. The yield has moved south of 3% on only four other occasions—1961, 1968, 1972 and 1987—and each time the market corrected sharply.

Should investors start to worry now that dividends have dropped into this apparent danger zone? No. The two keys to interpreting dividend yields are inflation and corporate health—and both are favorable.

Let's look first at inflation. When dividend yields exceed the inflation rate, stock prices do quite well, even if dividend yield is toward the low end of the range. After all, investors own stocks for the future flow of dividends that they will deliver. With inflation moderating to a 2% to 2½% annual

rate, stocks promise investors a real, current return on their money.

The outlook on inflation is very encouraging.

First, the economy is suffering from a chronic employment problem. Lay-offs in the manufacturing and service sectors are painful at many levels, but they also are boosting productivity.

Second, the world economies are not synchronized at this time, so there is not much pressure on prices caused by higher demand levels from our trading partners.

Third, commodity prices are still declining.

Fourth, the depression in the commercial real estate market continues to exert a powerful deflationary influence on the economy.

Finally, the U.S. dollar is strong. The strength puts upward pressure on dollar-denominated prices in foreign markets, taking away American companies' ability to raise prices. Meanwhile, imports are cheaper. All of these factors will restrain inflation growth for some time.

Now what about corporate health, the other ingredient needed to produce real dividend yields? Here again the prospects look favorable. Based on my estimates of earnings and dividends for the S&P 500 this year, the payout ratio is currently 48%. Historically, the ratio moves in a range of 40% to 60%, so today's payout ratio is toward the low end of the scale. Moreover, the payout ratio is headed lower: Dividend growth—estimated at 6% to 8% over the next few years—will be outstripped by earnings advances of 12% to 15%.

When payout ratios are low as now, the potential for growth in dividends is obviously high, especially when companies are strengthening balance

sheets by selling massive amounts of equity and repaying debt.

People worried about what they as a current high level of stock price would do well to study the 1950s. That decade equities appreciated at a compounded annual rate of 19.3%. People were worried. The market couldn't keep this up.

Not only had the market done exceedingly well, but stock yields 3.31% reached historical lows in absolute terms and dropped below bond yields for the first time ever. It seems clear that stocks were overpriced.

Defying what was then conventional wisdom, stocks produced a spectacular return during the decade that followed. To be specific, the compound annual return was 7.1% during the 1960s—not as high as the 1950s but more than satisfactory.

A dramatic change in investment psychology produced this unexpected outcome. Earnings began to be analyzed more closely, predicted more frequently, and would ultimately displace dividends as a critical element in valuing stocks. At the same time, investor perceptions of the risk inherent in bonds as opposed to stocks also changed. As it turned out, stock and bond yields never reverted to the pre-1959 relationship.

There is much to be learned from the experience of the 1950s. Today then we have come off a decade of superhigh returns. Today as then dividend yields exceed inflation, with the result that investors win in real terms on a current basis. Until inflation moves ahead of yields, I believe the stock market will perform well. Buy should not expect a repeat performance of the past decade, but they can anticipate 10% to 12% returns over the next several years.

...ving the yen probably won't do much to reduce
...Japanese trade surplus, but it's a politically
...able way of seeming to be doing something.

Up the yen

DREW J. KRIEGER



Drew J. Krieger is managing director
of Currency Advisors, Inc.,
an exchange investment management
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He is the author of *The Money Bazaar*.

LAST COLUMN I outlined some
enormous pressures that are
ing on the spot dollar/yen rela-
ship, and I noted how these pres-
sures will probably resolve themselves
in the next few months through a
currency shift. This shift is
under way. The Bank of Japan
lowered the official discount rate
by 25 basis points, to 2.5%, and there-
by sent a strong message to the mar-
ket that this may be its last easing of
the current cycle. The market re-
sponded with a resounding vote of
approval, as the yen began to surge
on very heavy volume, rallying
from 125 to 120.

This interest rate move has implica-
tions vis-à-vis broader policy shifts. It
indicates that the next round of Japanese
economic stimulation is almost cer-
tain to come in the form of a fiscal
package. This combination of stable-to-
rising interest rates coupled with fiscal
stimulus packages is generally a very
effective recipe for a strong currency,
and I suspect that the current situa-
tion will prove no different.

The pressures for a strong yen will
be further intensified by the far more
confrontational trade stance that the
U.S. Administration is apparent-

ly set to endorse. Driving U.S. anger is
the continuing spectacle of mounting
Japanese trade surpluses. By strength-
ening the yen, the Japanese govern-
ment would relieve some of these
pressures by making Japanese goods
more expensive abroad.

Such a move wouldn't necessarily
do much for the trade balances.
Strengthening the yen was tried dur-
ing the 1980s but did not do much
either to increase Japanese imports or
decrease Japanese exports. The Japa-
nese trade surplus remained embar-
rassingly high. Between 1985 and
1987 the value of the yen doubled, yet
Japanese exports continued to chug
along at a healthy clip. This seems to
indicate that there are noneconomic
problems involved that do not yield to
currency revaluation.

But even though strengthening the
yen might not do much to get Ameri-
cans to buy fewer Japanese goods or
Japanese to buy more American, it
would enable the politicians on both
sides to show the voters they were
doing something.

Alternative methods of dealing
with Japan's chronic surpluses are
even worse. Tariffs and retaliation can
unleash destructive forces. Trade pro-
tectionism is to be avoided at nearly
any cost.

A third way of dealing with the
Japanese surpluses would be through
a transformation of the Japanese in-
frastructure, particularly as it relates
to the procurement of goods and
services. This would be exceedingly
difficult to implement, and is there-
fore unlikely to happen.

So, I would expect further
strengthening of the yen. The curren-
cy solution would likely entail a bilat-
eral agreement between the U.S. and
Japan (or, alternatively, a multilateral
agreement encompassing the balance
of the G7 as well) in which the deci-
sion would be taken to push the yen to

much higher levels against both the
dollar and the major European cur-
rencies. The government officials
would issue strong statements about
the undervaluation of the yen and
about the need for further yen appre-
ciation to address the growing global
trade imbalances. Official currency
market intervention could also be an-
ticipated to reinforce the perception
that yen purchases should be transac-
ted without delay. This policy move
would likely generate at least a 10%
currency appreciation because it is
backed up by many critical fundamen-
tal conditions.

Whether or not this development
occurs, the new U.S. Administration
has shifted to an aggressive, comba-
tive mentality toward its trading part-
ners. This goes deeper than the last
election. It came about after the col-
lapse of the Soviet Union and the end
of the Cold War. Upon the U.S.S.R.'s
demise, the U.S. was no longer driven
by the gamesmanship of geopolitical
power maneuverings, but rather
turned its attention to international
economic competitiveness.

After only a modicum of self-ex-
amination, the U.S. discovered to its
dismay that it had suffered a notable
decline in economic and financial
power versus the rest of the world. It is
natural for ruling parties to seek a
scapegoat, preferably a foreign one,
when domestic issues are proving
troublesome. What handier target
than the "Japanese export machine"?

These problems and the need for a
scapegoat are going to be around for a
long time. Thus the issue of free and
fair trade may very well prove to be the
key factor in the currency markets
(and bond and equity areas as well) for
quite some time.

In the Nov. 23, 1992 issue, I rec-
ommended that you buy a March 73
mark/yen put at the price of 38. Since
then, the option has increased in value
to a price of 240. Even though I think
the yen is headed higher, I wouldn't
be greedy; take your profit by selling
your options. If you want to speculate
on the likelihood of further apprecia-
tion in the yen, I recommend that you
continue to run your remaining
March 87 yen strangle. I previously
advised you to sell half the position
that cost about 60 at a price of 124.
The current price is 85.

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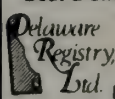
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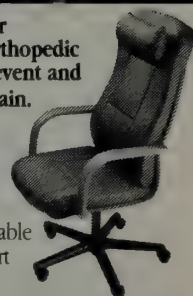
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Defiant on Pfizer

IT TAKES COURAGE to recommend a drug stock when even the President of the U.S. is attacking the group for making too much money. But Graham Tanaka of New York's \$95 million (assets) Tanaka Capital Management is telling clients to buy \$6.9 billion (sales) Pfizer Inc. Recent price, 57½, off 31% since last summer.

For six years, 1986-91, Pfizer's earnings were relatively flat. The company's pipeline of new drugs ran dry. But during the period Pfizer spent over \$3 billion on research and development. The result: Since 1989 it has introduced six very promising drugs in the U.S. market. Three of them—Procardia XL, Norvasc and Cardura—are for hypertension and/or angina. The other three are antibiotic Zithromax, antifungal Diflucan and antidepressant Zoloft.

Tanaka notes Pfizer also has already spent many millions to launch these drugs. As a result, he says, the company is set to enjoy widening profit margins from their sale.

In anticipation of controls on how much it can charge for its drugs, Pfizer has said that this year it will limit price increases, across the board, to just 3%. Even so, Tanaka says the company's potential for incremental margin growth cannot help but show up strongly as the year goes on. He thinks Pfizer can still earn over \$4 a share this year, roughly a 30% gain over last year. That means the stock is selling for a cheap 13.5 times Tanaka's 1993 earnings estimate.

Norfolk Southern's albatross

A HUSBAND-AND-WIFE TEAM of analysts—Joel and Luella Price, of Donaldson, Lufkin & Jenrette—think \$4.6 billion (sales) Norfolk Southern Corp. is the premier company in the railroad business. Based in Norfolk, Va., the company provides nearly 15,000 miles of rail service in 20 states, mainly east of the Mississippi. This year, as the economy recovers, the Prices expect the railroad to enjoy a modest rebound from shipping high-margin coal as well as general merchandise. Norfolk also makes good money moving popular automobiles such as Ford's Taurus, made



North American Van Lines trucks

An albatross in search of a turnaround.

in Atlanta and Chicago, and the Toyota Camry, made in Kentucky, and has signed a big contract with Chrysler to ship its cars.

Alas, Norfolk has an albatross, North American Van Lines. In 1991 it took a \$498 million, or \$3.37 a share, earnings charge related to severance payments and asset write-downs at the motor carrier. Last year it took another \$18 million earnings charge to increase North American's casualty claim and workers' compensation reserves.

No matter. Despite its trucking woes, last year Norfolk earned a record \$3.94 a share. The analysts Price expect Norfolk to earn \$4.55 a share this year, up 16%, and \$5.05 in 1994. The Prices note that David Goode, Norfolk's new chief executive, has made further restructuring at North American a top priority.

For the past year and a half or so, Norfolk stock has been stuck in a trading range between the mid-50s and mid-60s. Recent NYSE price, 63½. The Prices think the stock will go to 78 over the next 12 months.

A savior for Safeway?

SAFEWAY INC., 1992 sales of \$15.2 billion, operates some 1,100 supermarkets, mainly in the western U.S. and Canada. In 1986 Kohlberg Kravis Roberts & Co. acquired the Oakland-based chain in a \$5.7 billion leveraged buyout. Four years later, in April 1990, KKR took Safeway public at \$11.25 a share. That year Safeway earned 91 cents a share.

Alas, the following year earnings dropped to 69 cents and last year recovered to only 96 cents a share—excluding a 12-cent-a-share charge for warehouse consolidation.

Safeway's Big Board stock, which got as high as 21½ in 1991, has fallen to a recent 11½, just above IPO price.

There are three culprits behind Safeway's troubles: the recession, tougher competition and low inflation. Things are especially bad in Nevada, home to about 20% of its stores.

To turn the tide, KKR, which controls 67% of Safeway's stock, has to have made a management change at the top. Peter Magowan, 51, one of Safeway's founding family, teamed with KKR in the LBO, remained chairman but is no longer in charge of daily operations. Now the president is Steven Burd, 43, a turnaround specialist who previously worked at RJR Nabisco, Fred Meyer and Stop & Shop, which were also KKR buyouts.

Analyst Gary Giblein of Paine, Webber, appraises the move. Recently, Safeway announced that it would make corporate staff cuts and consolidate its Sacramento warehouse operations into a new Tracy, Calif. facility. Giblein thinks it should consider selling its excess distribution capacity to serve other supermarket chains.

Giblein suggests that Safeway sell its Washington, D.C. and Phoenix divisions, both struggling. He notes that Washington is its only operation east of Denver. The management of the Portland, Ore. and Seattle divisions could be consolidated as well. Meantime, Safeway continues to upgrade its stores to a larger format, so they can carry a higher margined mix of goods.

Giblein estimates Safeway will sell at \$1.22 a share this year, up 28% from last year's 95 cents a share, in continuing operations. He sees the stock at 19 in 12 months.

Alaska gusher

OILMEN are buzzing over the huge strike recently made by Atlantic Petroleum field and Phillips Petroleum in Alaska's North Cook Inlet. The find could amount to anywhere from 300 million to 1 billion barrels of recoverable oil, making it perhaps the biggest domestic discovery since Prudhoe Bay. Production is scheduled to begin in 1996.

The stocks of Arco (recent price 116¼) and Phillips (28½) are both

news. But the North Cook
and may have a far greater im-
the fortunes of two smaller oil
panies, \$50 million (estimated
ales) Global Natural Resources
and \$37 million (revenues)
ix Resource Cos. Both are ves-
of Bernie Cornfeld's infamous
ors Overseas Services.

ne 1960s oil promoter John M.
who ended up in jail) bought
tracts of Arctic drilling rights
h his King Resources, which
osely associated with Cornfeld's
included were 10,000 acres in
ook Inlet under an existing Phil-
s field. After IOS collapsed in the
7, those rights were transferred
Phoenix and Global, both of which
restructured. But neither com-
could afford to develop the field.
Phoenix, which controlled the
ge, sold the drilling rights for
million to Phillips, which was
oined by Arco.

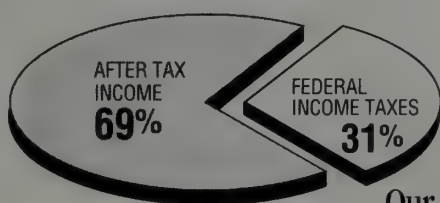
ckily, however, Phoenix kept a
oyalty interest on any future
action from the site. As for Glo-
t still retains a 1% overriding
y stake.

hile those small positions get no
ion in Global's financial disclo-
and only scant mention in
enix's, their impact could be spec-
ar. If the new find is, say, 500
on barrels, Global will get 5 mil-
barrels of oil. Starting in 1996,
could add \$10 million a year to
al's profits—double what it may
this year from its other oil and gas
ations. In Phoenix's case, annual
ngs could jump 25% come 1996.
espite these prospects, Phoenix
k—there are 4.2 million shares,
owned by Goldman, Sachs—has
y been little changed, trading on
Amex at around 32. Ditto Glo-
23.7 million Big Board shares.
ent price, about 7½. (Prudential
s 21%. Insiders, including New
k investment partnership Noel
up, own another 28% or so.)

lobal's management, led by
irman James Niven (son of the
r David) and President Robert
t, is eagerly buying up Global
k. Said Vagt, who bought another
00 shares the day Streetwalker
ed: "We're not privy to the drilling
a, but we hope the find is as big as it
be." —JAMES R. NORMAN

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...more things change..."

Years ago in FORBES

(THE ISSUE OF MAR. 17, 1923)



Dual-range transmission gave 23 GMC truck its pulling power.

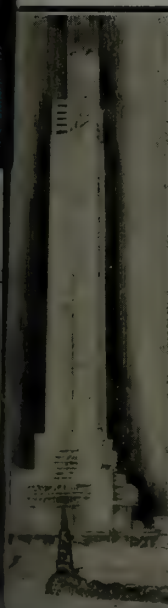
Much soft coal has been used in New York this winter that in the little spaces in the industrial sections now has taken on a coating of snow within a day or two after falling. Men who have read *Bleak House* have been reminded of Dickens' description of soot flakes so large hanging over London town that they looked like snow and now gone into mourning."

The adjournment of Congress is expected to open the way for the fusion of many mergers which have been held in abeyance because of unwillingness to have Congress appoint committees which would sit on the proposed business deals during summer."

Years ago

(THE ISSUE OF MAR. 15, 1933)

From the Pacific Coast has spread a new plan that has food manufactur-



A thermometer 21 stories high was built to advertise Havoline motor oil to visitors at the 1933 Chicago Century of Progress Exposition.

ers clinging desperately to the fence, chain stores worried, independent grocers up in arms, and manufacturers of other goods eagerly watching developments. That new idea is the so-called "super-market," or large-scale, cut-price food store."

"Last year vegetables brought more cash income to farmers than did grains, cotton and cottonseed, or poultry and eggs. In pre-depression years, they ranked sixth as sources of farm income; now they have moved up into third place behind dairy products and livestock."

50 years ago

(FROM THE ISSUE OF MAR. 15, 1943)

"All suggestions and signs are that the United Nations are preparing to invade Europe. . . . It may be that a grand assault in Continental Europe will be delayed until the Axis forces in North Africa are decisively defeated, driven into or across the Mediterranean. [But] Allied leaders may shortly feel justified in incurring the risk of invading Western Europe on a magnitudinous scale, although a venture is calculated to incur heavy casualties."

"Medical care costs money—more money than the majority of Americans can afford. The specter of medical expenses, which average \$120 annually per family, haunts most homes; even a minor illness perilously rocks the family budget. Yes, medical care comes high, yet such is the paradox of medicine that few doctors get rich and most hospitals operate at a deficit."

25 years ago

(FROM THE ISSUE OF MAR. 15, 1968)

"The nation's total health bill ran to \$54 billion in 1967. This was 6% of the gross national product. By 1975, the bill will be well over \$100 billion, 8% of the projected GNP. Your taxes are paying for a good part of this bill. Last year, the Federal Government alone spent \$10.8 billion on medical care. This year, it will spend \$15.6 billion."

"It sticks out like a sore thumb: As the gross national product reaches new highs, only 84.3% of plant capacity is being used, while factory orders dropped 4.6% in January, the sharpest

drop in 11 years. Why? . . . Says Frank P. Murphy, a General Electric economist, "The capital expenditures boom of the last three or four years has produced an on-rush of capacity that is ahead of current needs."

10 years ago

(FROM THE ISSUE OF MAR. 14, 1983)

"The simple truth is, most people receiving Social Security regard it as a debt the government is paying back to them after years of their payments to the government. And, of course, that's partially true. But most recipients of Social Security retirement benefits are getting back a great deal more than their investment could ever produce. The remainder of their Social Security check is, like it or not, public assistance."

"The big givers to charity in 1982 were oil companies, and education was the favorite cause, according to a 711-company survey by the American Council for the Arts in New York. The average gift to education was \$629,000; and to health and welfare, \$473,000. . . ."

"It would be hard to imagine a Wall Street broker strolling through the financial district attired in a tall silk hat, with a tightly rolled umbrella over his arm, as does Her Majesty's Broker Nigel Althaus in the City of London. Althaus is responsible for raising up to \$15 billion annually for the British government through the London Stock Exchange. In effect, Althaus is go-between for his borrower client, the government, and the City of London's capital lenders."



Her Majesty's Broker Nigel Althaus raises billions for the British government.

In all the thrashing about that results from our dwindling gold reserves, it's about time that this country and other countries get some perspective on the situation.

The day this country is out of the stuff, that day gold becomes what it's worth as a metal and no longer will have much significance as a monetary measurement.

It isn't the gold we have that makes this nation rich. It's what we make, our knowhow, our productivity. So long as this country produces more and better, the world will continue to want what we make.

—MALCOLM FORBES

A Text...

Every man shall give as he is able, according to the blessing of the Lord thy God which he hath given thee.

—DEUTERONOMY 16:17

Sent in by Raymond Anderson, Davenport, Iowa. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

The cloak of naiveté was the uniform of our success: we didn't know it couldn't be done.

—MARK PETERS

We do not deal much in facts when we are contemplating ourselves.

—MARK TWAIN

Such is the weakness of our nature, that when men are a little exalted in their condition they immediately conceive they have additional senses, and their capacities enlarged not only above other men, but above human comprehension itself.

—RICHARD STEELE

Our own self-love draws a thick veil between us and our faults.

—LORD CHESTERFIELD

It is a profound truth that women as a sex are vain; it is also a profound truth that men as a sex are vain.

—ARNOLD BENNETT

The most common sort of lie is the one uttered to one's self.

—NIETZSCHE

No estimate is more in danger of erroneous calculations than those by which a man computes the force of his own genius.

—SAMUEL JOHNSON

We lie loudest when we lie to ourselves.

—ERIC HOFFER

He who is in love with himself has at least this advantage—he won't encounter many rivals.

—GEORG C. LICHTENBERG

Everyone gives himself credit for more brains than he has and less money.

—ITALIAN PROVERB

Vanity is truly the motive-power that moves humanity, and it is flattery that greases the wheels.

—JEROME K. JEROME

Every ass loves to hear himself bray.

—THOMAS FULLER

Lying to ourselves is more deeply ingrained than lying to others.

—FYODOR DOSTOYEVSKI

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Few people are modest enough to be estimated at their true worth.

—VAUVENARGUES

We are only falsehood, duplicity, contradiction; we both conceal and disguise ourselves from ourselves.

—PASCAL

You are never so easily fooled as when trying to fool someone else.

—LA ROCHEFOUCAULD

It is not love we should have painted as blind, but self-love.

—VOLTAIRE

In love, one always begins by deceiving oneself, and one always ends by deceiving others; and that is what the world calls a romance.

—OSCAR WILDE

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and cufflinks, and exotic pastas,
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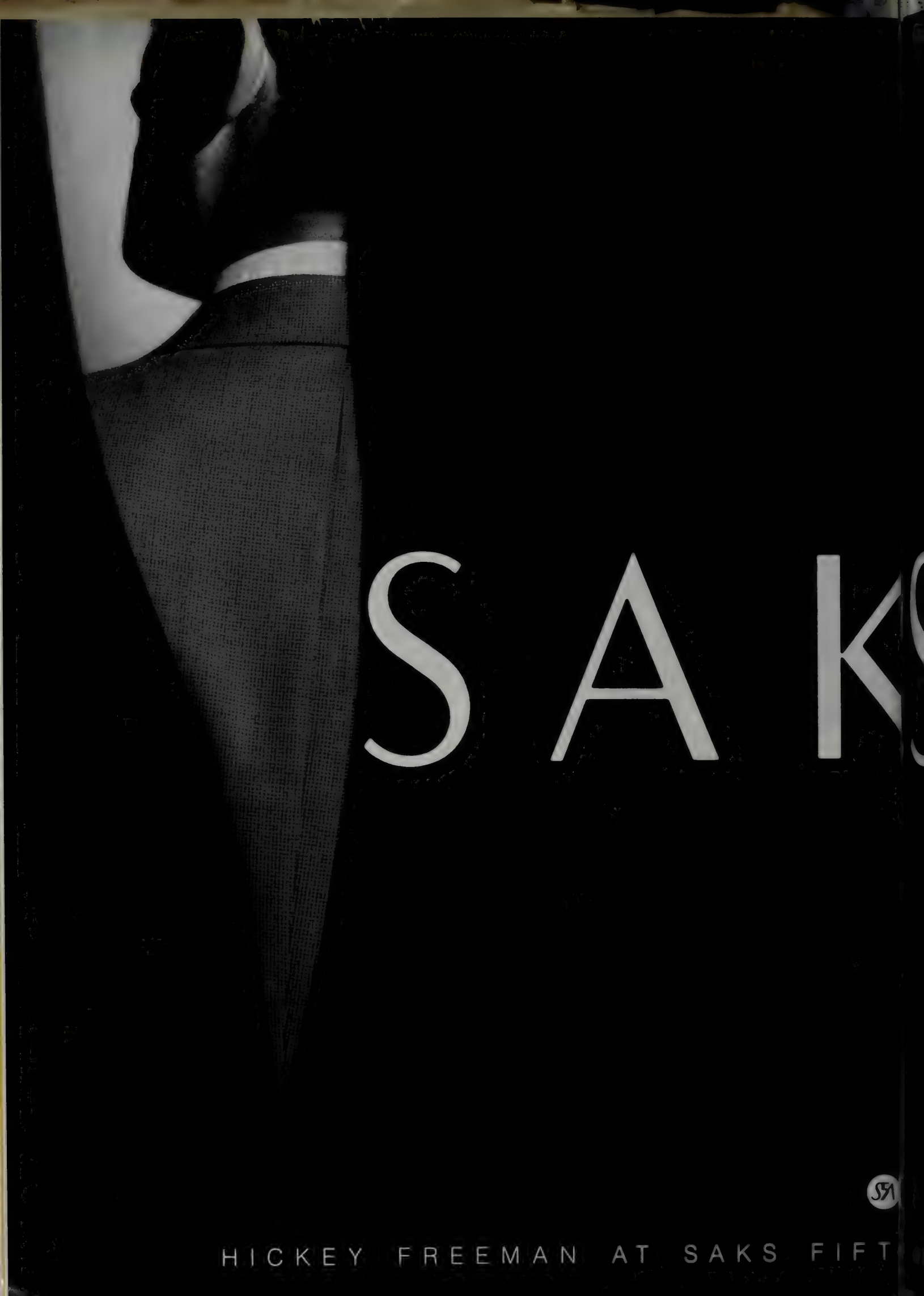
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A black and white photograph of a man in a suit, with the word 'SAKS' overlaid in large white letters.

SAKS



HICKEY FREEMAN AT SAKS FIFT

A black and white photograph of a man in a suit and tie, looking down. The image is used as a background for the advertisement. The man is wearing a dark suit jacket, a white shirt, and a patterned tie. The lighting is dramatic, with strong shadows.

S
F

AVENUE 1-800-562-4485

THE MANY BOOKS about the late, great, J. Edgar Hoover range from puff pieces to volumes of venom. Neither reflect accurately the man who built and held for more than half the 20th century one of the most powerful offices in the United States.

It is curious that, at a time when the Left is marshaling all the forces of political correctness in an effort to win for homosexuality equivalency of place with heterosexuality, both

future candidates for such roles be discreetly investigated for homosexuality and, if there were found the slightest inkling of such tendencies, such actor would be banned from the picture upon pain of withdrawal of FBI cooperation.

If J. Edgar Hoover wasn't homosexual, what of the allegations that he was paranoid? It is true, for example, that were Hoover in a room in the company exclusively of bishops, or even high-ranking FBI officials,

for that matter — and asked someone for a shot of bourbon, he would refuse it from

G. Gordon Liddy

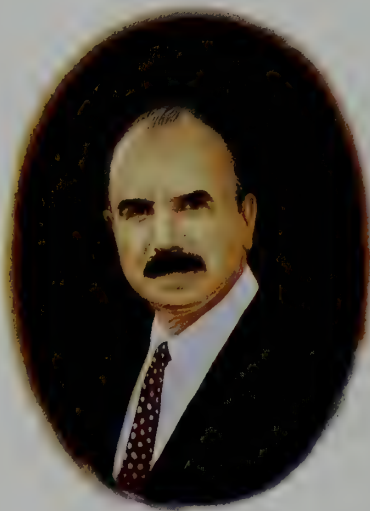
culturally and legally, it nevertheless hurls the accusation of homosexuality (upon no evidence whatsoever) at its enemy, the late director of the FBI, in a post-mortem attempt to blacken his name. In fact, quite the opposite was true.

On the day he was discovered dead of natural causes, I suggested to the Nixon White House that it move immediately to gain control of the so-called "Secret Files," those in the custody of his secretary, Miss Helen Gandy, and then sought to learn all I could about the facts and circumstances of his death. Miss Gandy, acting upon Mr. Hoover's long-standing instructions, beat us to the files and destroyed them. One of the things I was told, however, was that the FBI agents who searched his home for classified material (Hoover's homework) discovered some mildly erotic *heterosexual* material in the form of so-called "calendar art."

If anything, Hoover was what is known colloquially today as a "gay basher." I recall learning through a review of the files while I was a Bureau Supervisor in Division 8 at FBI national headquarters, that Hoover had been furious upon learning of the homosexuality of one of the many Hollywood actors who had portrayed Special Agents of the FBI in motion pictures. He immediately established a policy requiring that all

a previously opened bottle. He would insist upon watching as the seal of a new one was broken, the bottle opened and the drink poured and handed to him. Only then would he drink it. If he went to the bathroom, upon his return he would not only reject his unfinished drink, he would require that a new bottle be opened before him. While a single quart of good hundred-proof stuff might be sufficient to everyone else, if Hoover had the runs you'd damn well better have at least a case standing by for the Director. On the other hand, when one sees the lengths to which his enemies go in attacking Hoover after his death, one might be tempted to substitute the word "prudent" for "paranoid."

Well, how about "odd" or "eccentric"? Even there I'd have to vote "not guilty." True enough, some odd things *were* done in the FBI under Hoover; but they were more a reaction to his awesome persona by those who worked for him than anything he ordered himself. You see, the problem was that so many under Hoover were so afraid of him that they would take even his casual observations as commands and, while his orders were always unequivocal, his observations were often ambiguous. That an ambiguity could be cleared up by merely asking Hoover what he meant never



**If You Knew Hoover
Like I Knew Hoover...**

GUCCI

TIMEPIECES



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a BMW motorcycle. A belief that there are no rush h so nasty that they won't become a blast as the world : beneath your boots on a powerful, responsive mach

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We already your answer.

This, in e is the principl hind commut

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As evidence, we submit exhibits A, B and C from the BMW lineup of 11 pulse-stirring models. The K1100LT is the ultimate touring machine, deriving 110 HP from an 1100cc, inline-4 engine. Its sport suspension and ABS make awe-inspiring riding seem effortless. Or discover the adventures awaiting you beyond the cloverleaf on the K1100RS. An aggressively restyled touring machine with Motronic engine management, and a closed-loop catalytic converter. The R100GS PD enduro is a rugged 58 HP on-and off-

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In Hoover's FBI, all shooting was—to kill.

occurred to those under him. They were so afraid of the legendary Director they wouldn't think of asking him what he meant.

The source of the fear of Hoover by his staff was his ferocious adherence to the highest standards. Anything even slightly less, if it came to his attention, would have disastrous consequences; *particularly* if it was suggested that it *did* meet Hoover's superhuman standards. Staff, being all too human, kept getting it wrong and the resulting thunderbolt from Zeus.

For example: one day a Special Agent from the Washington Field Office was walking back to the office from lunch when, right in front of him, a robber backed out the front door of a bank, pistol in one hand, bag of swag in the other. The FBI agent drew his service revolver, leveled it at the profiled bank robber, identified himself and ordered the man to drop the gun. Instead, the robber tried to drop the agent, pivoting to bring the muzzle of his pistol

him up for a letter of commendation from J. Edgar Hoover—the FBI equivalent of a medal. Up it went through the chain of command, each higher-ranking man (there were no women outside the stenopools in Hoover's FBI, with the possible exception of the nurse, and we weren't too sure about her) adding his chop with "I agree" or "I concur" all the way up the line to the very office of The Director.

All of these comments were written in pencil. In Hoover's FBI only *he* was permitted to write on an internal document in ink. That was so what he had to say would stand out in sharp contrast, which he ensured

to bear on him in order to open fire. Bad career move. The G-Man emptied his .38 S&W Special into the robber, hitting him every time. Down went the bad guy, who was rushed, barely alive, to a nearby hospital emergency room. Every penny of loot was recovered and returned to its rightful owner. Heroic medical efforts saved the robber's life. He was tried, convicted and sentenced to a long prison term.

The agent's supervisor, noting the splendid outcome of his by-the-book lightning reaction to the sudden appearance of an armed and dangerous bankrobber in mid-bank-rob, wrote

further by using a fountain pen loaded with a particularly bright blue ink. All of which made sense because, in *his* FBI, only what Hoover had to say had any significance anyway.

J. Edgar Hoover read the recommendation and the long series of approvals with a growing fury. It was bad enough for a mere field office supervisor not to get it. But for every one up to the level of his highest ranking assistants not to get it either was too much.

Grasping his heavy, bright blue ink laden pen in a death grip, Hoover wrote, "No! Why isn't the son of a bitch (the bankrobber, not the agent) dead?" That was bad enough. But then Hoover added, "What is wrong with our firearms training program?"

That did it. The Inspection Division descended upon Quantico to answer the Director's question like a wolf on the fold. An Assyrian wolf at that. Quantico barely survived the administrative bloodletting.

What J. Edgar Hoover was teaching with this seemingly harsh lesson was that he had detected laxness and would not tolerate it. The FBI rule (then, when the FBI was the best in the world. God knows what the rule

is now) is that one was justified in pointing a gun at someone else only when justified in killing him. Warning shots and shots to wound were strictly forbidden. All shooting was—to kill. The Washington Field Office agent had shot and not killed. In

*True, some odd things
were done in the FBI
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would take even his
casual observations as
commands.*

the totality of the circumstances, Hoover would have let it go. But he was damned if he would *commend* someone for such a lapse and appalled that his administrators would recommend that he do so.

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PERFECTLY
RATIONAL
REASONS
FOR WEARING
THE
COSTLIEST
FRAGRANCE
IN THE
WORLD.



1. "JOY IS MY ONLY ACCESSORY THAT DOESN'T NEED CHANGING FROM THE BOARDROOM TO THE BEDROOM."
2. "A SINGLE WHIFF OF JOY TURNS A RICH MAN INTO A GENEROUS MAN."
3. "WEARING JOY PERFUME IN BACCARAT CRYSTAL AT THE EXPENSE OF MY EX-HUSBAND IS AMAZINGLY PLEASANT AND WICKED!"
4. "JOY ADDS LENGTH TO MY LEGS, WIT TO MY CONVERSATION AND A BETTER ACCENT TO MY FRENCH."
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6. "JOY IS THAT RARE BOUQUET OF 10,400 JASMINE FLOWERS AND 28 DOZEN ROSES THAT NEVER NEEDS WATERING AND NEVER DIES."
7. "A DAB OF JOY ON MY CHECK WRITING WRIST HELPS THE ZEROS FLOW WITH EASE."
8. "A SPLASH OF JOY BEFORE COFFEE AND CORNFLAKES PUTS THE GLAMOUR BACK INTO BREAKFAST."
9. "JOY BODY CREAM MAKES ME FEEL LIKE A MILLION WITHOUT SPENDING A MINT."
10. "I WEAR DIAMONDS BEFORE FIVE, BLACK BEFORE DARK AND JOY EAU DE TOILETTE BEFORE EVERYTHING."

The most precious flowers on earth are just a few of the things that make JOY the costliest fragrance in the world.

Saks Fifth Avenue

That's how the man built an organization so good that in all of the Second World War, there was not a *single* successful act of sabotage, *anywhere* in the United States committed by *any* of the Axis powers.

On rare occasions, Hoover's use of his pen could be benign. He decided one day, in the interests of increased efficiency, that there was nothing so complex in this world that it could not be reduced by an *intelligent* Bureau Supervisor to no more than one-and-one-quarter pages of writing, and he would no longer read memoranda that exceeded this maximum. There was a reason for the blank three-quarters of a page. It provided, first, space for those in the chain of command to write in their penciled comments (the briefer the better) and the remainder was left for whatever comment Hoover wanted to make in his famous blue ink. Sometimes he had a lot to say, and the empty space was insufficient. This led him to continue his remarks in the margins occasionally, going all the way up one side of the page, across the top and down the other. Thus, Rule Two: a precise minimum width for the margins.

One day, the best Supervisor in the Division, a veteran of the Bureau and World War II before that, was wrestling with an extraordinarily complex matter and, try as they might, he and the stenographer just couldn't get it into one-and-a-quarter pages. Finally, in desperation, he suggested to the steno that she decrease slightly the width of the margins and try again.

Horried, the woman asked the man if she had heard him correctly. "Yes," he replied, "We'll have to put our careers on the line and cheat on

the margin rule." She did and it fit. Heart in mouth, the insubordinate memo was sent through the chain of command. Up, up, up it went, right to Hoover's office, with no one catching the dangerous defect. But J. Edgar Hoover, then at the peak of

gins" as "borders" of the paper, so what he wrote was a cautionary "Watch the borders. H."

Down it went through the chain of command, each one more puzzled than the next by Hoover's brisk notation. Worried, they took counsel

*Nobody would ask Hoover what
he meant by anything he ever wrote...
They did what they always did.
They got together and then did what
they thought he meant—
or hoped he meant.*

his prowess, caught it. Now the Supervisor had done a brilliant job of analysis and Hoover had nothing whatever to say about the internal content of the memorandum, but he couldn't sit idly by and, by inaction give tacit consent to so egregious a violation as—*cheating on the margin*

together. "Charlie, this memorandum's got nothing to do with the borders of the United States. Why don't you go and ask the Old Man what he means?"

"Oh, no. *You* go ask the Director what he means. No way *I'm* going to give him the idea I'm stupid. Let's see if we can talk Clyde into doing it." Forget *that*. Clyde Tolson didn't get to be the Associate Director of the FBI by asking Hoover what the hell he was talking about either.

Nobody would ask Hoover what he meant by anything he ever wrote. In this instance, they did what they *always* did. They got together and then did what they *thought* he meant—or hoped he meant. They sent about 15 Special Agents on special duty to watch the U.S. border with Canada; nearly 30 to the Rio Grande to watch Mexico. The agents already there watched, mystified, as the reinforcements poured off the airplanes. "What are you guys doing here?"

"We don't know. The Director said to watch the border so we'll stay here 'til the Bureau thinks it's safe to go home."

Ah, forget Dillinger. Those were the glory days. 



*In his FBI, only what Hoover had to say
had any significance anyway.*

rule! So Hoover drew his deadly fountain pen and, in bright blue ink, wrote an injunction against a repetition of such conduct.

J. Edgar Hoover thought of "mar-

G. GORDON LIDDY is a successful novelist and radio talk show host.

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Experience
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DEAR FYI,

Reback come back from his foray into Oregon, muttering that the idea for fried-owl stands was a good one but he run outta raw material, having served up everything but them plastic owls you stock on the roof to keep the pigeons off.

The winter's been kinda warm, and we done a little fishing on the Big Water, the Yellowstone, and what I am about to tell you is 'struth.

Montana really is the Last Best Place, recent pilgrims of no merit whatever notwithstanding, and one of the peculiarities of this baroque patch is that though folks die now and again like everywhere else, they often don't *leave*.

Meaning I often sup with the likes of Charley Russell, see riders who really can ride beside me on the hunting trail, and last week me and Reback was having a supper on an island in the Yellowstone when damned if the Grand Old Fart Of All Fly-fishing His Own Self didn't stomp on up and ask to at least smell some of our whiskey.

"Norman Maclean!" we choruses, him being an old friend and us missin' him.

Norman, glaring at us like an osprey sighting a rubber fish, allows as how life does imitate art, sometimes offensively. I had heard that Norman the Professor was not someone you wanted to explain how the dog ate your homework to.

"Howdja like the Movie," says Reback, the rude cuss.

Norman allows that you can't trust anything anymore, and Hollywood didn't even screw it up much.

"Norman;" I says, full of amaze, "I recall your first trip out to Tinseltown, for your first Meeting, and how it done last about fifty-two seconds."

"One minute and thirteen seconds," said Norman. "No one can be an utter pig in less than a minute but you."

"And when Mokus Mogul addressed you as 'Norm, baby,' you arose in dudgeon and demanded to be taken to the airport."

"Yumph," grumbled Norman.

"How's the fishing?"

"Right good," I says, "Reback and I has founded Trout DeLimited. Rotenone the Yellowstone! Nice fish, but they attract vermin."

"Now *that's* a worthy notion," said Norman Maclean. "I see that large mobs of alleged fly fishermen now will labor mightily to 'restore' Big Blackfoot River. It's like Montana, big and very beautiful and fragile as hoarfrost. Whatever will they do about the river's nasty habit of freezing from the bottom up? Fly fishermen, indeed. I suppose they shall wish to be thought gentlemen next."

In ol' Norman's world, people did not arrive, nor shall they ever.

Clouds of midges fragile as breath danced on the green water. Trout and whitefish sipped them. One horn of the waxing moon thrust up



Coyote Jack

OUTDOORS GUIDE

from behind the Absaroka Range.

A redpoll flew past me and Reback, right through Norman, and on.

"I suppose I could describe the actors as casting like Hollywood daffodils, or like most of your clients," grumbled Norman, "but Bob did grasp that the book was not about fly fishing anyway."

"Wal," says Reback, "cept there at the end when the old goat playin' you took two flicks of his wrist and had thirty yards of line across the river. Come to think of it, I don't think you ever did cast that well, last I *saw*."

Norman, see, became one hellacious and expert—are you sittin' down now?—*spin* fisherman, most often off the front end of my boat. Why he could peg a chunk of hardware out there with the best of them, crane-and-cable in the victimous fish, and thump it once and final on the noggin, seeing beauty and dinner in its death throes. He felt catch-and-release was a wonderful notion for

A River Runs

Around In It

G



GUCCI



them pullulating hordes who didn't belong there anyway. (We calls 'em Orvisholes.)

Norman kinda looked around a while, then back to Reback, and he grinned and said, "There were no breathless articles in the trouty press on the beauty of my spincasting. Hee-hee.

"Bob did a fine job," Norman said, half-wonderingly. "He even got how death calls to us an affirmation of life, and waters. But let me smell some of that whiskey—Wally always did have a most distinctive bouquet, of careless creatures, mushrooms, and old waders. And then if you don't mind although it's cold I'd like to watch you fellows cast a little. The moon is up, the air is cold, the hills where my life rose—that's Matthew Arnold, by the way—will soon be covered white till May."

He bent and sniffed the Wally Water in my tin cup, rose to a high branch in a giant cottonwood and sat comfortable, waved his hand like some conductor and us the jackleg orchestra.

The air was so damn cold by now that ice crystals formed in the guides and when the wet line hissed back through them, sparkling shards caught the moon's strong pale light and fell like diamonds to the river.

"One for Norman!" Reback hollered, doublehauling and shooting his line as far as any man can make it go, a flexing arc near on to the length of a football field, a brilliant streamer fly coiling out an settling into water. Reback began to mend his cast, I often think that he



Norman Maclean became one hellacious and expert spin fisherman.



"Let me smell some of that whiskey," says Norman's shade. "And then if you don't mind, I'd like to watch you fellows cast a little."

can see beneath the water, make that fly scoot close to rocks and jig past all the places where the big ones lie.

He held his rod as high as he could, and when the fish struck the rod snapped forward to shape up like a bow the moment that the arrow's loosed. The fish was big, for sure, and running deep at first, Reback pounding on the rod butt to make the hook sting and bring him up.

The trout shot up, one silver slab of power, flew and twisted, danced upon the water on his tail and dove. A very, very big one, flashing moonlight from his close-laid scales.

Me I just watched and smoked,

near on as much fun as what Reback was doing.

Reback brought him in closer, the fish, tired, made one more leap and shook his head like a dog stung on the nose. The streamer come loose.

"Wahooooo!" yelled Reback, grinning, and we looked back, but Norman had took off, maybe sliding in behind the vee of geese above.

"Yes," said Reback, his breath a silver plume.

"Yes," I said.

And we bowed to the River. 

COYOTE JACK writes novels and such under the name of "Peter Bowen."

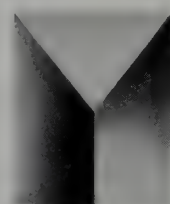
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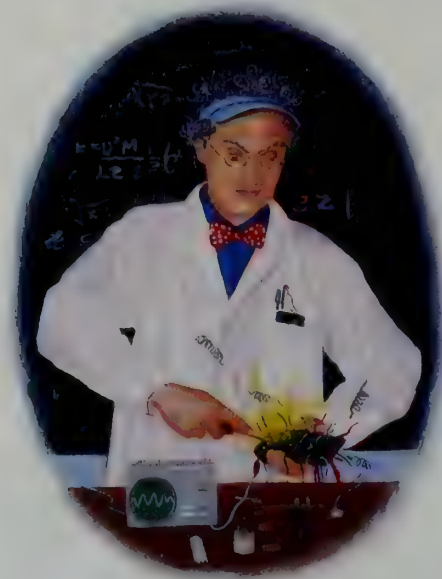
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Dr. Gizmo

If it doesn't complicate your life more than the Clinton tax code, and doesn't start tweeting during an intimate "reconciliation" with your second wife, then it isn't a gizmo.

GIZMO HERE—DOCTOR Gizmo if you please—chronicler of things gadgetarious and geegawtious. The sworn enemy of technobabbity, I am back once again to recommend A Few Good Gizmos.

Here's a dandy little accessory for The Man Who Has Everything, or who had everything until Bill Clinton's taxomaniacs decided to confiscate it. In a store or gas station, have you ever looked at the cashier pawing your credit card and asked yourself: suppose I accidentally left my plastic with THAT?

It is not just absent-minded professors (a hateful stereotype, to be sure!) but real people, too, who leave their credit cards in the stupidest places. But not if they own the Beeping

Wallet. This ever-alert leather billfold emits an audible threep each time you remove a credit card or I.D. from one of

its six slots, and keeps on beeping for five minutes, or until you put the card back in the wallet. It's an ideal conversation piece for after-hours tête à têtes with subordinates. Do be sure to remove your wife's picture early in the evening, lest the beeping start up at a most inopportune time.

The wallet is powered by a standard watch battery, which should last several years. I've had mine now for a few months, and yes, it's still beeping.

Gizmo Rating: 4 of a possible 4. The men's billfold costs \$29.95. The woman's wallet, which has 12 "active" credit card slots, versus six for the males of the species, costs \$32.95. Available from the Safety Zone catalogue (800-999-3030). Batteries included. Fancy that.

Still beeping.

BIKING? I LOVE MY BICYCLE. I wouldn't be caught dead on the paths of the Institute Of Advanced Study without it. But when pedaling with the pedants, I have a leg up, so

to speak. My bike shifts gears automatically.

It's called AutoBike, and it is to the bicycle what the automatic transmission is to the car: an excuse to jack up the price. Just kidding, ha ha. Invented by two Canadian geniuses (!), AutoBike shifts smoothly among its six gears using the principle of the centrifugal clutch, which you don't need to understand. The Canadian combo already owns the patent, and what you get is the torque and power of a six-speed bicycle, without having to puzzle through ten or even twenty-one gears while your front wheel veers toward the ditch.

The bike always starts in the lowest gear and shifts upwards at 65 rpm, which is a medium speed for an average biker. Even though AutoBike has mounted its centrifugal transmission on a mountain bike frame, this cycle is strictly for use in the leafy suburbs or on those vacation islands with the weathered gray shingles and the quaint, \$250-a-night inns. "The bike-store groupies don't like us," explains spokeswoman Marsha Williams. (I presume she means those people in the Spandex pants.) "Recreational riders think we're great."

Gizmo Rating: 4 again.

The AutoBike costs \$399 and can be test-driven (with one wheel off the floor) at most Brookstone stores. It can also be ordered directly from the manufacturer by calling 800-942-BIKE.

And yes, the wallet is still beeping.

WHEN HURRYING, AS I SO OFTEN AM, to the scene of a prestigious awards ceremony, I occasionally drive my automatic transmission automobile. Of course, it's tempting to bring along a libation—coffee, or ginger ale—but the prospect of clutching the cup between my legs... Well, it just won't do.

But now I have discovered Calypso, "Der unglaubliche getränkehalter" (the "unbelievable drink holder"), manufactured in Germany and patented for sale in the U.S. The copy writers call it "gyroscopic," but



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your lawn. Not to mention your disposable income.

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Our 30-Day No Risk Guarantee also lets you exchange or return your John Deere for any reason, no questions asked.

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NOTHING RUNS LIKE A DEERE®



it's really just a plastic tray floating in a bed of ball bearings. The base clamps easily onto any flat part of your dashboard. So while your car veers around the slower traffic on the *autobahn*, your *schnapps*, I mean your wretched cola drink, remains undisturbed. I'm told this gizmo works well in boats, but I don't own a boat. Yet.

Gizmo Rating: 3. The Calypso costs \$19.95, and is available at Sharper Image stores and through the catalogue; 800-344-4444.

Cher Giz, YOU ASK, DOES CHESS figure among your many interests? And I answer, of course. Especially in the round.

I have recently taken to playing Centre Chess, a circular chess creation that proves to be far more challenging than the boring old rectilinear game. If regular chess confuses you, circular chess will drive you batty! Maybe give it to a friend. Or, better yet, an enemy.

The game closely resembles normal chess. There are 64 squares for maneuver and



Centre Chess

attack, with a thin dividing pie wedge designated as a "no man's zone." Now the fun begins. The rooks can attack directly ahead, or in sideways curves along the radius. The bishops strike out of nowhere, scything S-curves through the center of the board like Exocet missiles. The Queen, of course, can do whatever she pleases. If you enjoy

chess, you'll be fascinated by
C e n t r e

called QuickChess, played with the pieces to the side on a 30-square board. QuickChess is great! You think I'm a shill—what do I care? Where's *your* Nobel, Mr. Critic?

Centre Chess costs \$29.95; QuickChess costs \$6.95. Both can be ordered toll-free direct from Amerigames; 800-344-4241.

CURIOUS READERS WANT TO KNOW what's all this we've been reading about electronic photography? Is it time to trade in my Brownie? Not to

worry, buggershuts, or shuggerbuts or whatever you photo enthusiasts call yourselves. Gizmo has seen the future of photography, and it is very blurry. Not to mention expensive.

With Kodak still testing the waters with its film-to-compa disc system, the only standard-bearers of electronic photography now widely available are color video printers from Sony, Panasonic and Fuji. These can freeze a frame of your VCR and churn out a col-



The Beeping Wallet

"Hey...Hey! You're going to forget that credit card again, you nincompoop! Come back here!"

C h e s s .
If you don't like chess, why are you bothering to read this item at all?

Endgame: for intellectuals, flyweights and children, the maker of Centre Chess has developed a game

print. My worshipful lab assistants have assured me that Sony's CVP-G700 printer is the best of the lot, which is not reassuring.

I took a videotape of my tiny grand-Gizmoids down to the photo shop and treated myself to a few prints. The results are something less-than-clear: clarity and focus reminiscent of early Zapruder. To Jerry Garcia, that is how the world looks. You and I know better.

To be fair—and believe me, I am not paid the big Swiss francs to be fair!—this printer can do some nifty things. You can merge as many as 16 different video images onto one print. An amateur can touch up the color quality and even add titles to a snapshot. Instant Christmas cards for a buck! Without channeling the money to the Bulgarian spies at UNESCO! Not such a bad deal.

The one thing this system can't do is produce decent-quality pictures. Sony propaganda says this \$1,500 device will transform your camcorder into "more than a camera," and of course they display simulated snapshots like the bogus Polaroids James Garner used to rave about on TV. But confronted with my lab results, a Sony spokesman quickly backed off the party line: "They're not going to match the print from a 35 mm negative. The system isn't designed to replace still photography." But it says right here...Oh. Never mind.

Gizmo Rating: 2. Consider yourselves lucky.

The Sony CVP-G700 color video printer usually sells for less than list price at camera and video stores, and at classier department stores. A 30-count film pack costs \$30; 90 pictures costs \$70.

Got the picture? I certainly hope so. Farewell, until our next technocharged encounter. And remember: if it doesn't complicate your life more than the Clinton tax code, and if it doesn't start tweeting during an intimate "reconciliation" with your second wife, then it isn't a Gizmo.

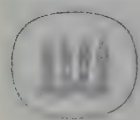
Yes, the wallet is still beeping. 

At least
one thing
will go
smoothly
today.



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CIGA HOTELS

Will the muse visit you during your stay at the Gritti Palace in Venice? You will certainly enjoy the same sources of inspiration as Mr Hemingway.

The Grand Canal still laps the hotel entrance as it has for five hundred years.

Titian's 16th century portrait of Doge Andrea Gritti continues to grace the hotel's walls.

**ERNEST HEMINGWAY WROTE
A NOVEL HERE.
PERHAPS YOU MAY BE MOVED TO
WRITE A MEMO OR TWO?**

And the view from your window, across to the church of La Salute, is the same one that greeted the American author on his arrival in October 1949.

The Gritti Palace became not only the place where he wrote, but also the place that he wrote about, in "Across the river and into the trees".

In truth, other Ciga Hotels have proved equally inspiring. And neither satellite communications nor air conditioning have robbed them of their historic charm.

In Asolo, amid the hills of the Veneto, you will find the Villa Cipriani. Once the home of Robert and Elisabeth Browning.

But perhaps the most literary of our hotels is the Meurice, which borders the Tuileries in Paris.

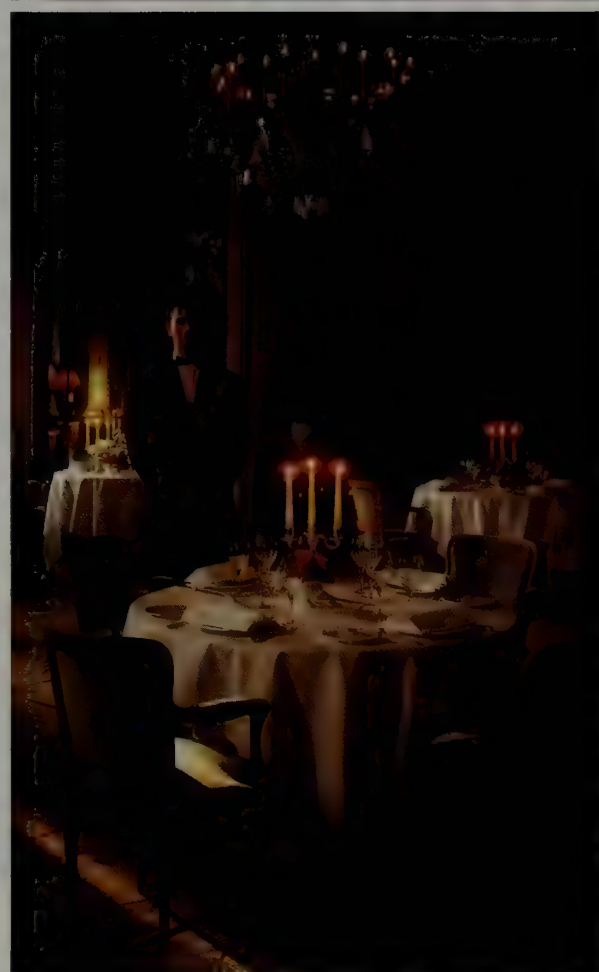
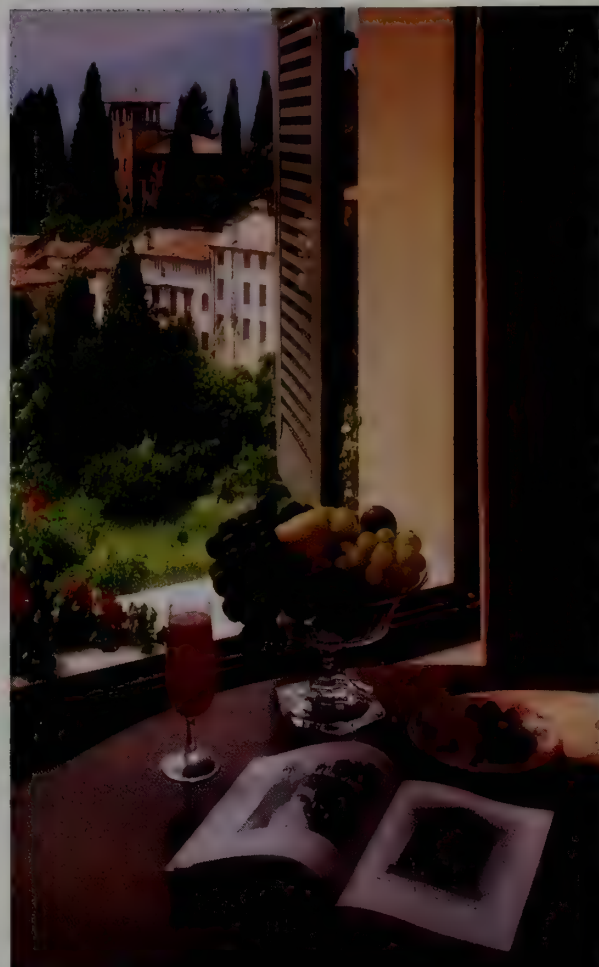
For more than thirty years, its renowned restaurant served as headquarters to France's most noted literary circle.

An era immortalised in Fargue's "Les Piétons de Paris". And commemorated by the portrait of its Patron, Florence Gould, which presides over diners to this day.

If you are a person more attracted by the beauty of a traditional building than the sterility of a tower block, consider a Ciga Hotel next time you travel.

There are currently 36 to choose from, with room rates much the same as ordinary five star hotels.

To obtain a brochure describing them all, simply fax your letterhead or business card to New York 212-421 5929. Alternatively, telephone New York 212-935 9540.





The Exceptional Shirt



IT WAS ABOUT THE five-and-a-half-hour point during my last round of golf at Pebble Beach, a round which lasted seven-and-a-half hours and in which I played those last two famous holes in utter darkness, that I decided this wasn't what golf was all about.

I know, I know...the links at Pebble Beach are a national treasure and a public course, and anyone who wishes to plunk down \$200 on the pro shop counter is entitled to full value, even unto playing every last one of their goddamn 125 shots.

But I couldn't help but contrast the situation on the Monterey Peninsula with the one on the Eden estuary. The Old Course at St. Andrews is, of course, even more of a treasure than Pebble will ever hope to be, and attracts a similar weight of demand from golfers who wish to play. But, at about \$61, it is far less of an investment, and it is an extremely rare event for a round of golf there to last more than four hours. One cannot play more than two holes before encountering a polite but firm ranger on a motor scooter who encourages you to play "just a wee bit faster, if you please."

Golf, of course, is big business these days, and with the bean counters in control, you hear things like "maximizing the resource," which in English means cramming as many fee-paying customers onto a golf course as possible.

This might be good business, but it does not make for pleasurable golf. Strangely, this most social of games is best enjoyed in settings of solitary bliss, as anyone who has snuck away from the office for a mid-week visit to the club will attest. When the fairways are empty and the silence is deafening, the journey of golf goes inward as much as onward.

For the last several years, I have been invited to join a group of friends from Atlanta on an early January getaway to Aiken, S.C., and the Palmetto Golf Club. The club has been in existence for a hundred years, and the original golf course

was revised in 1931 by Dr. Alister Mackenzie, who was in the vicinity helping to build a little track called Augusta National, just across the Savannah River.

To my way of thinking, Palmetto comes pretty close to being perfect. There are maybe 200 members, total, in the club, drawn about equally from the horsey set and the nuclear set from the nearby Savannah River plant. There is no such thing as a tee time reservation, even on weekends. You just show up, peg it up and play away.

At least, that's what my friends

The Golf Bag

and I do every January.

There is a lovely little clubhouse, designed by Stanford White. We change shoes in the antiquated locker room, where a cheerful fire wards off whatever winter chill is in the air. I am embarrassed to admit that I don't remember ever seeing a women's locker room; but they must have one...this is 1993 after all. I think the course has forward tee markers, but I'm not sure.

There are no tennis courts or swimming pools at the Palmetto Golf Club, and the only cuisine is the delicious steamed hot dogs available via self-service in the caddy shack.

You see, this one weekend of the year is reserved for golf-assisted male bonding. We beat golf balls together instead of drums. We laugh a lot. We trade stories. We play golf until it gets too dark. We pay no attention to score after awhile, and after the first 18, we just play the holes in whatever order seems right at the time, skipping around at will.

Can you play here too? Oh, probably. I don't think they stand too severely on ceremony at Palmetto. If you don't know anyone who's a member, you can probably find one without too much trouble.

**Brilliant And
Unhurried Rounds
Of Golf On "The
Missing Links."**



.....

BY JAMES Y. BARTLETT



Cramming as many fee-paying customers onto a golf course as possible might be good business, but it does not make for pleasurable golf.

Is it the lack of pretention that is so appealing about a place like Palmetto? I think so. I was recently in Australia and visited the highly touted Sanctuary Cove, whose Arnold Palmer/Ed Seay-designed course is said to be the finest on the continent. Yet it had a manufactured frumpiness to it, and the club was *très* exclusive: indeed, if you are just passing through Surfer's Paradise, you can't get permission to play Sanctuary Cove without a member. Well, excuuuuuse me!

A few days later, we played the under-touted New South Wales Golf Club, some 15 miles outside of Sydney, and found one of the most magnificent oceanside links in the world. Again, designed by Alister Mackenzie on the crashing shore of Botany Bay, and, again, a golfers-only kind of club, with no frills.

It was a glorious day for golf: cool and briskly windy, the only way to play a links course. It's nothing but an unadulterated golf high to hang a ball out over the ocean and wait for the wind to blow it back onto the

green (it didn't), or to knowingly and with forethought select a seven-iron for a dead downwind 200-yard shot. If I ever move to Sydney, I will seek to be a member at New South Wales.

Or at Lahinch, in Ireland, another perfect links course that's too quirky and rugged to make anyone's Top 100 lists. I happen to like all those blind shots and unfair bounces, especially when I can play them on a virtually empty golf course. Or at the new Mount Juliet course, near Kilkenny, where Jack Nicklaus finally built a golf course that's fun to play. I stopped, the first day, after 18 holes to explore the wonderful country house hotel, the thoroughbreds prancing in the pastures and the fly fishermen at work on the River Nore. But my companions went on and on, around and around.

I have played all the greats in Scotland, and stayed in the most expensive hotels costing hundreds of dollars a night: Turnberry, Glenaeles, the Old Course Hotel.

My favorites? Two come to mind. The first is the course at Machrie,

on the Isle of Islay, a place reachable only by jet or ferry. The golf course is over a hundred years old...aren't they all?...and was the site of the first professional tournament ever staged.

Murdo MacPherson runs the Machrie Hotel, next to the golf course, which features some comfortable, if not elegant, rooms and a restaurant in a converted dairy barn. The first tee is just a few steps out the back door, and if every blessed citizen of Islay decided all at once to stop making single malt whiskey and play some golf, it still wouldn't fill the course.

I was the only player on the entire course on a day when the sun kept the temperatures moderate, and the wind off the sea was steady but playable. They'll never want to hold the Open at Machrie, thank God, because the course features something like eleven holes with blind shots. You aim not at a visible green or flagstick, but at a white pole stuck atop a monstrous, grass-covered sand dune. Sometimes you fire away at nothing at all, which will test a man's

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This quirky little naturalistic golf course lay before us, empty and beckoning, save for the sheep.

faith in himself and his golf game.

My other favorite Scottish course is Kingarth on the Isle of Bute. I know native Scots who are not entirely sure where the Isle of Bute is, which gives you some idea of its rusticity.

Actually, it's only a 30-minute ferry ride from the Ayrshire coast, tucked in between the Kintyre Peninsula and Arran.

It would be good to have a member of the Bute Golf Club with you when you go to play, not because it's exclusive, but because it's hard to find. You park in a wide place beside the road, change into your golf shoes and tromp through the yard of a farm, opening and closing the gates as you go, nodding at the limpid stares of the masticating livestock.

A few hundred yards from the road is the weathered, green-painted shack that serves as clubhouse. A sign on the peeling building asks you to place your green fee in an envelope and deposit in the box inside. It costs £3 to play. Per day.

There are only nine holes on the course at Kingarth, and the fairways

are filled with sheep grazing on the millions of tiny daisy-like blooms that appear in summer. The sheep are largely uninterested in golfers and ignore the hard white pellets that come whizzing by their heads.

The sheep are one hazard of golf on Bute; the hard pebbles they leave behind are another. A third challenge is chipping over and through the barbed wire fences, about knee-high, that surround every squarish green. The fences, of course, keep the sheep off the tender grass of the putting surfaces.

If you are a golfer who likes to surround himself with pretention, then you would probably hate Kingarth. I found the place exhilarating. The midsummer sky was high and achingly blue. Clouds made interesting shadows on the green-covered baize of the mountains of Arran across Kilbrennan Sound. Everywhere on the course and in the surrounding grazing lands, clumps of gorse were ablaze in full yellow bloom.

And this quirky little naturalistic golf course lay before us, empty and beckoning, save for the sheep. We

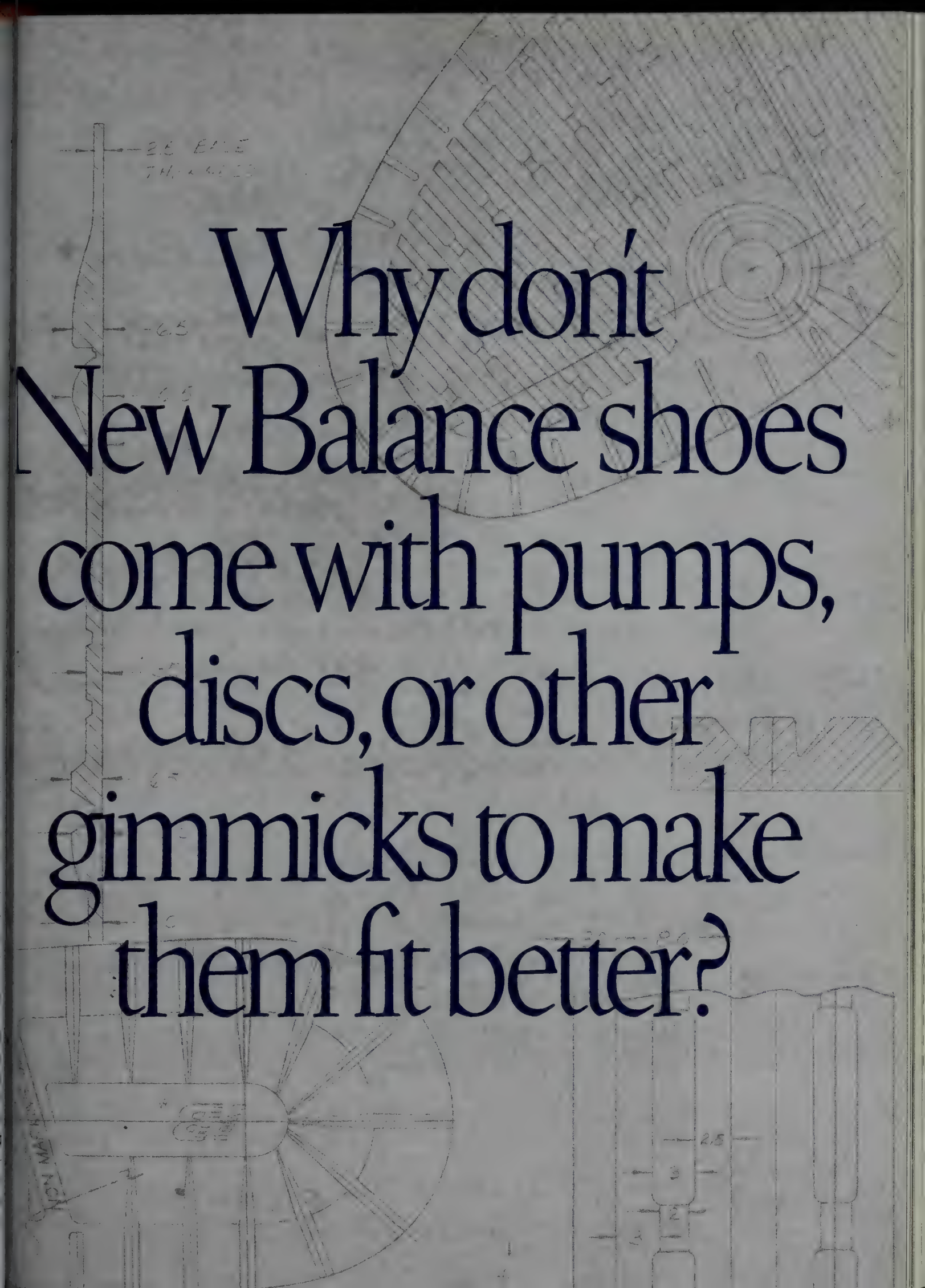
shouldered our clubs and battled the wind. Crumbling old stone walls defined some fairways and ran cross-wise in protection of some others. Two greens rested precariously on stony precipices next to the water.

I had met up with relatives on Bute: an aunt and uncle are restoring a house in Rothesay. We played the nine in the morning, then adjourned to a nearby pub for soup, ham and cheese on thick slabs of bread, and a half-pint of the local lager.

Then, back to the course for another nine in a freshening afternoon breeze. As we finished, two local women walked up and prepared to play. That was the traffic the course at Kingarth had to bear that day: six of us and two women.

Nobody asked me, but I think I would have paid somebody \$200 for the experience of playing golf that day. That it only cost three quid makes me feel guilty, as if I had stolen something rare and valuable. 

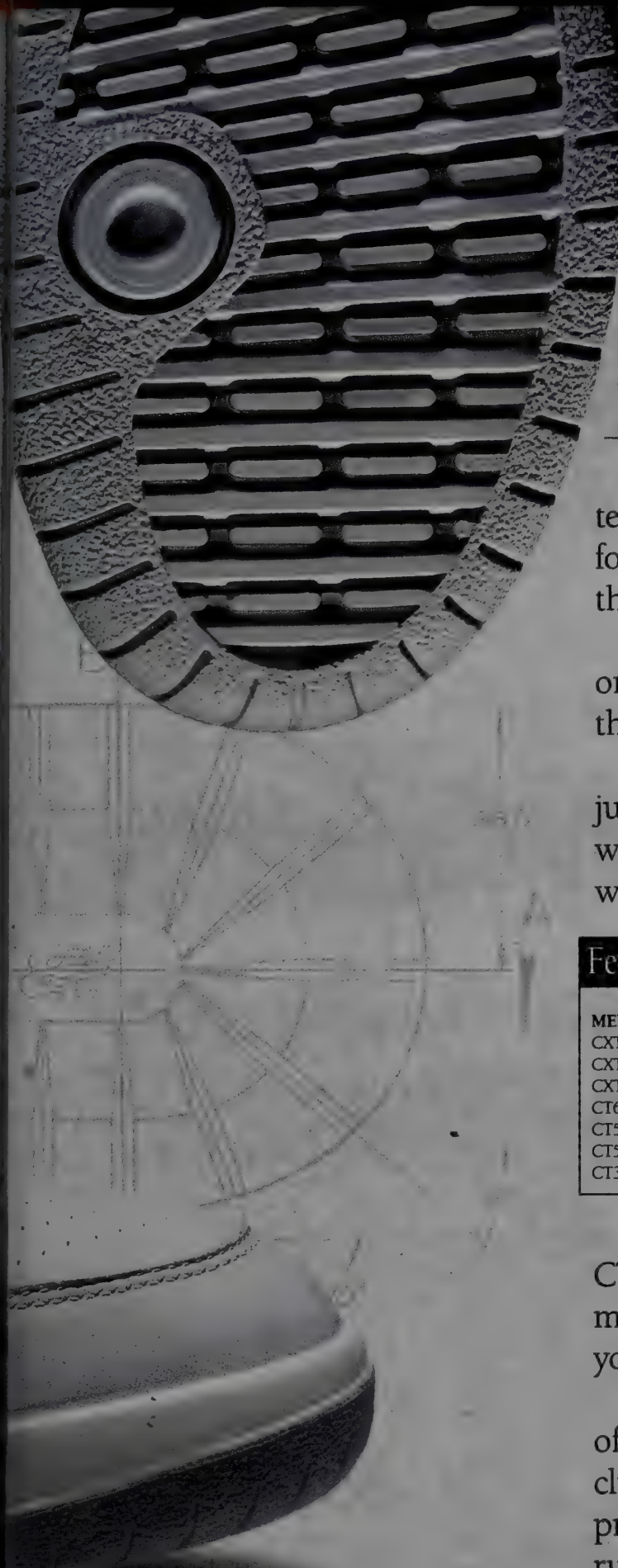
JAMES Y. BARTLETT *fears he will never get rich from the sales of Death From The Ladies' Tee* (St. Martin's Press.)

The background is a technical drawing, likely a mechanical blueprint. It features various geometric shapes, lines, and circles. On the left side, there is a vertical line with several horizontal tick marks and labels: "2.5 EASE", "THICKNESS", and "-6.5". In the upper right, there is a circular diagram with concentric circles and radial lines. In the lower left, there is a circular diagram with radial lines and a label "NON MACHINABLE". In the lower right, there is a rectangular diagram with a label "2.5".

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Other athletic shoe companies build their tennis shoes on the same last (the plastic form that gives a shoe its shape) they use for their running shoes.

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CXT525			•	•	•						
CT675		•	•	•	•						
CT545	•	•	•	•	•						
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CT320		•	•	•	•						

This means you won't have to inflate the CT675 to make it snugger, or adjust its disc to make it looser. It'll fit correctly the moment you put it on.

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What the CT675 gives you, in other words, are all the gimmicks you truly need in a tennis shoe: none.

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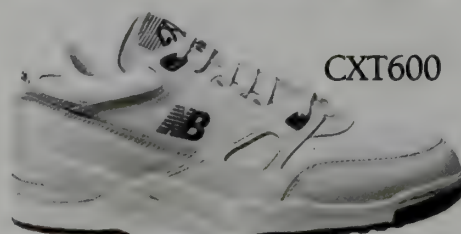
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WOMEN	WCT500 WCT360	WCT500 WCT360	WCT360	WCT500 WCT360	WCT500	WCT500	WCT500 WCT360	WCT500	WCT500 WCT360	WCT500

MEN



CXT770



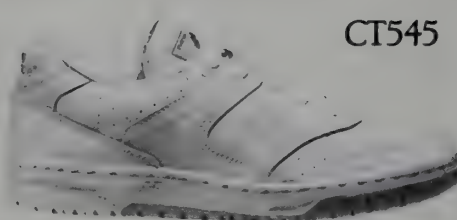
CXT600



CXT525



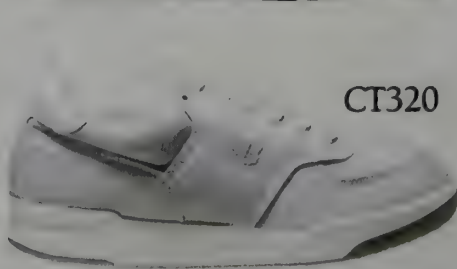
CT675



CT545



CT500



CT320

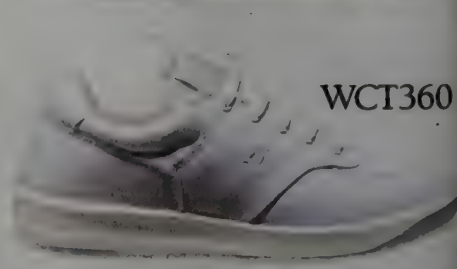
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TO: SENIOR VP FOR ETIQUETTE
FROM: NERVOUS TUMMY

I am the CEO of a major American corporation. For the past 12 years, I've been a frequent guest at the White House at dinners of state, particularly when an American corporate presence was required. During that time, I came to rely on a certain familiar hospitality, and a cuisine that, like the market on a good day, carried no unpleasant surprises. Cream soups, saddle of lamb, sorbet—you know, good Republican fare, not the stuff of Pepto-Bismol or nightmares.

Now, I'm worried. I've been invited to a dinner at the White House next month, and I've heard some very disturbing things about the new President's eating habits. What if the main course is a Big Mac? How do I handle this? And is it true they're producing *wine* in Arkansas?

FROM: SENIOR VP
TO: NERVOUS TUMMY

The Senior VP notes that you could always decline the invitation, but this would be imprudent so early in a new Administration. (Bear in mind, however, that international business trips can always be scheduled to coincide with future invitations.)

After several discreet inquiries, the Senior VP can assure you that you will not be summoned to dinner by a musical triangle. However, you are approaching the uncharted territory of a First Executive who campaigned on a platform of change, and therefore you should be prepared to cope with some culinary surprises.

Let us address some hypothetical examples as a guideline for behavior.

1. The entree is "Roasted Razorback Hog with Ozark sauce." As the dish is served, you should command the attention of the table, in particular its ladies, and announce that the dinner is clearly an instance of "placing swine before pearls." As your fellow diners titter appreciatively, produce and unfold what appear to be the poorly mimeographed pages of a

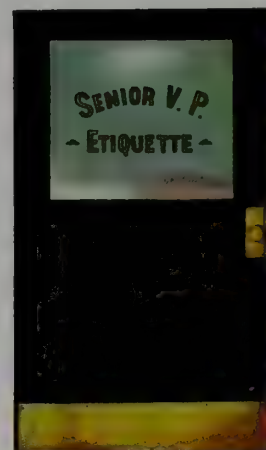
restrictive diet. Peer at it through your bifocals, shake your head and mutter, "These nutritionists... sadists..." and look around for a sympathetic nod of agreement. Then conclude, "Nope. Hog is definitely *not* on this diet. Damn." and return the pages to your pocket.

2. You need to summon a waiter or captain. Usually this involves a discreet gesture, but here is the opportunity to signal your kinship with the informal style of the new Administration. Place two fingers in your mouth, and emit a sharp, audible whistle—the louder the better—and repeat as necessary. Startling, yes, but how *democratic* in the truest sense. You will quickly gain the reputation (should you wish it) as a CEO "with the common touch."

Senior VP for Etiquette



3. Arkansas wines are served exclusively with your meal. Regrettably, the Senior VP has learned, wines *are* being produced in "the Land Of Opportunity," perhaps in an effort to boost that state's questionable record of job creation. Depending on the vintage, here are



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some appropriate remarks you can offer, after taking the smallest of exploratory sips: Chateau Espoir (said to be the President's favorite) —“a sentimental wine, although more illusion than reality”; Chateau Little Rock—“a capital grape, with provincial accents”; and Chateau Nouveau Covenant—“Well-meaning...but *plus ça change, plus c'est la meme chose, n'est-ce pas?*”

TO: SENIOR VP FOR ETIQUETTE FROM: MISINFORMED

I am the CEO of a major American corporation which has for decades been a cornerstone of the Dow Jones. When I recently announced that we would soon be laying off 15,000 employees through an aggressive pursuit of early retirements, I was lauded by financial analysts for “my tough decision-making ability” and “my willingness to come to terms with market realities.” Immediately afterwards, our stock price rose on the New York Stock Exchange, and has remained steady.

Unfortunately, I have since learned that, due to significant cuts already in place, we no longer *have* 15,000 employees. How do I handle this potential media disaster?

FROM: SENIOR VP TO: MISINFORMED

As you are undoubtedly aware, the communities of this nation are awash in unemployed laborers, managers and executives, due to “downsizings” you yourself have probably contributed to. Quietly hire the necessary manpower to swell your labor force to the point where you can then trim it by the announced number. Those temporary hires will surely be grateful for the generous day's wage you will be providing, and you can rest comfortably, with that decisive reputation intact.

TO: SENIOR VP FOR ETIQUETTE FROM: LION AT SUNSET

I am the CEO of a major American corporation who will very shortly be retiring after one of the most dis-

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tinguished careers in my industry. In fact, come to think of it, I don't know another executive with my grasp and personality and sheer corporate willpower.

Anyway, I don't think I have to tell you about the slings and arrows that I've fended off from my detractors over the decades. Some of the blows I've received would have broken a lesser man, but not this CEO. How else would I have led one of the greatest corporate turnarounds in history during the 1980s without a spirit I think all would agree is indomitable? My life could be a miniseries, I'm telling you.

Well, recently I sat down to plan my retirement with the Executive Board. I really don't think my expectations were out of line: a lifetime compensation at 100% of my final package; a personal assistant, housekeeper, masseuse and chef at each of my five homes; a ticker tape parade through the streets of my city

with mandatory civic participation; a mural depicting my life and triumphs painted at five times life size in our flagship manufacturing facility; a campaign to designate my birthday as a national holiday; and a capsule of my thoughts, strategies and reflections launched into space at company expense to serve as a beacon to unknown stellar civilizations.

There was kind of a silence there in the room when I got through reading my list. And then some jumped-up little flunky from the Corporate Communications Dept. says, not very politely, "We really think this

will send the wrong message about the company. Don't you know that the Zeitgeist has changed?"

My question is: what the hell is a Zeitgeist, and what does it have to do with my celebration?

**FROM: SENIOR VP
TO: LION AT SUNSET**

No, the Zeitgeist is not a sporty German import that siphoned off market share during the so-called "Roaring Eighties." The Zeitgeist is an over-

announce, "Do with me what you will." Sweep the room once gravely with your eyes, bow ever-so-slightly and then depart. Those remaining will be so startled by what appears to be a complete personality change on your part that they will be temporarily at a loss for words—and deeds.

You, however, will not. Go directly to the press conference that you've scheduled, where your retirement agenda is being distributed (along with some modest



How soooooo it is! Emphasizing American cooking, the First Lady recently announced, will be a priority in the Clinton White House.

arching social mood, with which your visions of your retirement—and by extension your place in history, if you will allow me a little executive wing psychology—seem unhappily to be clashing.

Surely someone who has risen to your exalted place in a large corporate culture is no stranger to the practical use of intrigue.

The Senior VP has always found that humility, however feigned, can be nicely disarming. What you must do is immediately reconvene that recalcitrant executive board, stand up solemnly, symbolically drop your list of requisites to the table, and

remarks of your own about the "high privilege it's been to serve this company"). Counter the impression that you are an egotistical plutocrat run amok by announcing, with the same solemnity as before, "I am not doing this for myself, you understand. I'm doing this to demonstrate that rumors of the death of American corporate might are greatly exaggerated. I'm doing this to help us prove a point—to the world."

The Senior VP would be most surprised if the "great expectations" of your sunset years were not substantially fulfilled.

A high-contrast, artistic photograph featuring a glass of white wine in the upper left corner and a large pizza in the lower half. The pizza is topped with sliced red and yellow tomatoes, fresh green basil leaves, and a dark, textured sauce. The background is dark and textured, creating a sophisticated and moody atmosphere.

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"YOU CAN GET TOTALLY lost in looking at the development of things you looked at the week before," says Lewis Glucksman, a vice chairman at Smith Barney. "Something is dying. Something is growing and thriving. Something that you thought was gone has revived itself. It's a tapestry."

No, Glucksman isn't talking about the most recent crop of IPOs to hit the market. He's pondering the many benefits of gardening in a greenhouse; or in his case, in one of the five greenhouses he uses to keep his orchids, amaryllises and whatever else suits his fancy in bloom. "I like seeing things grow, especially during the time of the year when the grass is brown and the trees have lost their

ety," he continues. "When people get in a greenhouse on a cold day there's a great deal of security. There's a lot of satisfaction in controlling your own environment."

Shut the door of a greenhouse and you're in another world, your own little world. The air hangs thick and heavy, and each breath you take tastes clean and pleasant. Condensation drips from the ceiling, moistening the flecks of dirt and dried leaves scattered about the floor. Clean 'em up? The sooner the better; those leaves might breed fungus.

"It's very contemplative," says Glucksman, contentedly; "the phone doesn't ring...and the plants don't talk back to you."

"I personally enjoy just plain working in there," says Phil Jesup, a retired banker in Bristol, Conn., who, with his wife Ann, has been cranking out award-winning orchids for almost four decades.

leaves. Things in a greenhouse exhibit *life*."

Glucksman's on to something there: that greenhouses are great places to grow plants. That may come as a pleasant surprise to those who hitched their homes up with the see-through structures over the last half-decade or so, and then used them for recreation instead of propagation. "The late '80s was, like, super yup-ism," says Bill Yanda, owner of U.S. Sky, a glazing systems company in Santa Fe. "People used to ask me what grew best in a greenhouse, and I'd tell 'em, 'Hot tubs—you just add water.' But over the last year or so, it's started changing back to growing. I think the new administration has something to do with it."

That's right: the '80s are over. Time to get back to the roots, to the soil. "When the economy starts going down, there's a greater interest in raising your own plants," says Doc Abraham, a horticultural journalist who, with his wife Katy, has written ten books on gardening over the years. "We live in a stressful soci-

Their 50-by-18-foot backyard greenhouse is stuffed to the vents with Restrepias, Masdevallias, Aerangis, Schoenorchis...even a begonia or two. "I clean up the old dead leaves and flowers, pick up each plant, see how it's doing, take pleasure if it's doing well..."

"Complain vigorously if it's not," adds Ann.

"Yes," he goes on, "it's the orchids that make my motor run. But no matter what kind of plant, I enjoy the atmosphere. When it's cold and snowy outside, it's great to be able to walk into a little bit of the tropics."

Plants aren't the only thing that prosper in that atmosphere. Research has shown that gardening can bring blood pressure and stress levels down. "There really is a therapeutic benefit to working in a greenhouse," says Shane Smith, director of the Cheyenne Botanic Gardens in Cheyenne, Wyo., and author of the recently published *Greenhouse Gardener's Companion*. "There are a lot of stressed-out people in the business world who might think they don't

Stressbusters

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garden outside,
you can garden
inside, say the
experts.
So have you
considered a
greenhouse?**

.....

BY NEAL SANTELMANN



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"When it's cold and snowy outside, it's great to be able to walk into a little bit of the tropics."

want to take on another responsibility, but a greenhouse might be just the thing they need."

GREENHOUSE GARDENING is nothing new, of course. The Roman emperor Tiberius had a thing for cucumbers and grew them in the winter in ditches covered with mica. Over the centuries farmers stretched oiled paper over wood to create cold frames, and with the invention of glass, placed lantern covers over plants to head off the ravages of frost. As glass technology developed in the 17th and 18th centuries, assorted royalty stocked huge orangeries—large brick structures with lengthy vertical windows—full of orange trees and plants from the New World.

In this country, greenhouses date from Andrew Faneuil's—of Boston's Faneuil Hall—way back in 1737. At Mount Vernon, George Washington dazzled dinner guests with hot-house pineapples. But it took robber baron Jay Gould to bring greenhouses into their architectural Golden Age. In 1881, Gould built the first iron-frame greenhouse in the hemisphere on his Lyndhurst property in Tarrytown, N.Y. Staffed by as many as 15 full-time gardeners, it covered

nearly half-an-acre and had upwards of 10,000 panes of glass.

Iron-frame greenhouses quickly caught on with the affluent of the day, who ordered them up heavy on Victorian elaborateness: bow arches, iron spikes, frills and gingerbread galore. "It was a romantic time," says Tom Richmond, an iron-frame greenhouse restorer and aficionado, who worked on Gould's colossus. "People were bringing back orchids and exotic plants from all over the world. All this stuff was new and exciting—*gotta have it*. I suppose a greenhouse would've brought you up several notches on the social ladder."

The Crash wiped out much of the wealth that could afford iron-frames, and during World War II many grand estate greenhouses were torn down for scrap. Aluminum began to replace iron and cypress for framing

material, and, later, plastics became a viable glazing alternative to glass.

Then came the energy crunch. In the late '70s, the Federal Government offered an energy tax credit for attached solar greenhouses used as alternative energy sources. Manufacturers marketed greenhouses as solar rooms, and sales took off.

But the energy credit was discontinued in the late '80s, and many manufacturers who rode the solar energy wave are now gone. "I've got a list of about 100 so-called 'residential' greenhouse manufacturers, and only about 30 are of any substance," says Dr. Harold Gray of the National Greenhouse Manufacturers Association.

IF YOU CAN GARDEN outside, you can garden inside, say the experts. But a greenhouse is different. "You have to learn about heating, shading and ventilation, what a greenhouse will and won't do," says Janice Hale, publication director of the Hobby Greenhouse Association in Bedford, Mass. "Some people may have success in growing orchids, others growing vegetables. You just have to find out what your particular situation is."

So—how to get started? Shane

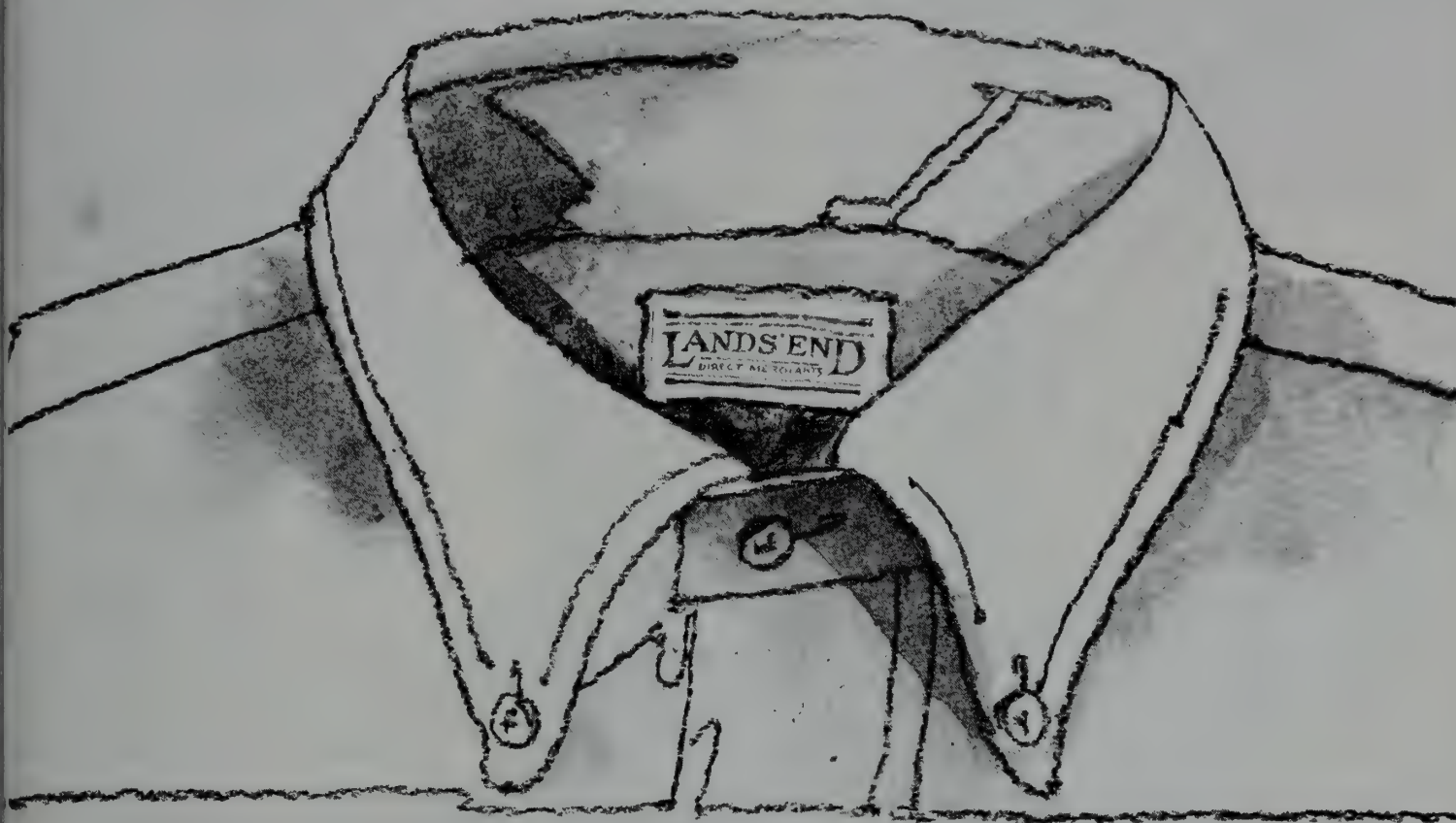
Smith advocates simplicity: "You can automate these things to death, and the more you automate the more you're taking yourself out of the loop and not getting the therapeutic benefits." Certain gadgets break like crazy, he says, and others



A cuke for all seasons: Tiberius just had to have 'em.

are just plain frivolous. "Why spend 80 bucks on a moisture meter? All you've got to do is stick your finger in the soil."

Smith also recommends going with an attached greenhouse. "People who have to put on a coat, shoes



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and a hat to get to a greenhouse tend not to take care of it as well." That makes sense: it's much easier to pluck a bug off a leaf when you can stick your head in from time to time. One of the most popular designs these days, in fact, is the simple lean-to style, easily attached to a side of a house—preferably the south side—with no more remodeling necessary than knocking out a doorway.

But attached greenhouses can have their downsides, too. If you use pesticides to battle insects—a problem every garden faces—you'll have to take special care to keep the poisons out of your own living space. Keeping the door closed is one answer; releasing good bugs to kill bad is another; and using a non-toxic bug killer is another still. (Try this: combine a tablespoon of dishwashing liquid, a quarter-cup of cooking oil and a quart of water; shake vigorously; then mix with a gallon of water.) Also, greenhouse equipment can make quite a rumble. "If the exhaust fans are right next to your bedroom, you won't get to hear many early morning bird songs," says Ann Jesup.

All that time you spent gardening outdoors may not be of much help. "Where people screw up is that they take what they learned outside and try to apply it inside," says Smith. "And then they're surprised when stuff dies or doesn't produce as much." A big-time tomato variety that does well in the garden might run out of root room in a pot; a disease like powdery mildew—no problem outdoors—can easily get out of hand in the heat and humidity indoors; and unless you want bees

buzzing around your house, you may have to learn how to pollinate some flowers yourself.

Proper watering in a greenhouse turns out to be the trickiest of all. "The commercial people will tell you the fella that waters the plants controls the purse strings," says Doc Abraham. "And the only way to learn how to water in a greenhouse is by practice." Learn as you go—particularly from your disasters. "It's nice to have a crop of aphids in your greenhouse," says Doc; "then you know what an aphid is. We spent years

peppers somewhere else if we wanted to, or go to the store and buy them, but it's just fun to do inside."

To help limit frustration from the get-go, keep in mind that there are many plant varieties available specifically engineered for greenhouse growing. From cucumbers to tomatoes, snap dragons to sweet peas, a beginner would do well to seek them out. Check with garden supply catalogs like Stokes (800-263-7233) or Johnny's (207-437-4301).

And while it is possible to grow just about anything in a greenhouse, you shouldn't try to grow everything. Space is always a premium, and greenhouse owners invariably wish they'd built bigger. Why waste precious soil on something like potatoes when they go for a 49 cents a pound at the supermarket? And if you're going to stuff your greenhouse full of greeneries, be careful about arrangement: tall plants will rob precious rays from short ones. (Tip: paint the inside white and the



Pest Intentions: "We spent years studying that stuff in college," says one gardener, "and you can learn it in about ten minutes in a greenhouse."

studying that stuff in college, and you can learn it in about ten minutes in a greenhouse."

Ted Meredith, a big fan of hot-house hot peppers and chairman of the executive committee of Meredith Corp., the Des Moines publisher, concurs on the pests: "You can grow lots of things in a greenhouse, including red spiders and white flies. Those are the things that take experimentation to find out about." Meredith and his wife Katie have a lean-to at their winter getaway in Florida and a sun room at their home in Wyoming. "We could grow hot

light will bounce around.)

Bottom line. You're a busy executive. How much time does a greenhouse take? We heard everything from, "A half-hour a week, at the minimum" to "Most people spend an hour a day" to "No more time than it takes to garden outside." If the clock is really a big concern, maybe a greenhouse isn't for you. It is a living thing, after all, and like a cat or a dog, or even a kid, it will require long-term attention. But bear in mind what Lewis Glucksman, busy executive, told us: "I spend a lot less time in my greenhouse than I would like."

HOW DOES YOUR GREENHOUSE GROW?

The greenhouse structures available today run the gamut from window-boxes to—well, use your imagination. Manufacturers market do-it-yourself kits, supposedly simple enough for the weekend handyperson: from gothic arches to gambrel roofs, A-frames to lean-tos, 9' by 12's to 10' by 22's, et cetera.

Prefab kits run \$1,500 to \$15,000 for the structure itself. And if you don't want to be one of the crowd, you can always build your greenhouse yourself (designs are available from a variety of books), or hire an architect to design and build one for you. But keep in mind: the cost of a kit greenhouse is usually mid-way between the same design built from scratch and the same built professionally.

But the structure itself is only half the battle—or less. A greenhouse is basically an addition to your home. Depending on the structure's size and weight, it'll need a foundation to stand on, and more than likely a permit to build on. It will need to be equipped with everything from benches and tables, to shades and locks, to pots and soil galore. And with few geographic exceptions it'll need heat in the winter, cooling in the summer, and water all year round. And—*very important*—it'll need a backup system, or two, or three; if the heating and cooling go down, you can kiss your gasping plants goodbye.

Such extras can add up. Dr. Harold Gray of the National Greenhouse Manufacturers Association estimates that the finished cost of a kit greenhouse—with all the necessary extras—will run about two-and-a-half times the cost of the kit itself.

For a directory of greenhouse manufacturers (and other info), send \$1.50 to Hobby Greenhouse Association, 8 Glen Terrace, Bedford, MA 01730; 617-275-0377. Shane Smith's Greenhouse Gardener's Companion is available from Fulcrum Publishing, 350 Indiana Street, Suite 350, Golden, CO 80401, 800-992-2908; \$22.95, postage paid.



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**Our Undercovered
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The Sonoma Mission
Inn & Spa Most
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I Spa



.....

BY PATRICK COOKE

IT IS THE recommendation of the staff at the Sonoma Mission Inn & Spa that, immediately upon arrival at their shaded eight-acre grounds in northern California, you partake of the "Stress Reducer" massage. This is wise counsel. After all, they know only too well what a demanding hour-long odyssey guests endure driving from the San Francisco International Airport: first, the fording of the shimmering San Francisco Bay across the Golden Gate Bridge, and then the long push up north into the sage-scented hills and misty redwood stands of Marin County. Onward

across vast stretches of sun-baked grazing land that lie beneath the looming Mayacamas Mountains. Finally, those seemingly deserted roads that lead toward the Inn itself deep in Sonoma's Valley Of The Moon. Yes, the "Stress Reducer" is the perfect way to unwind from such a trying journey.

Kicking back is, as most Californians are aware, pretty much the business of the wine country's Sonoma Valley. Centuries ago indigenous Indians came here to take the sacred healing waters of the underground Boyes Hot Springs. The Franciscans made Sonoma the site of their outermost mission on El Camino Real, the "King's Highway," that stretched from Mexico north along the California coast. Jack London, needing to mellow out after a two-year sailing voyage around the South Pacific, settled in the valley and built what he called his "Beauty Ranch," a name that suggests he knew the resort industry wouldn't be far behind.

Today, no one is upholding the wine country's reputation for providing the best in relaxation better than the Sonoma Mission Inn & Spa. Located about two miles north of the village of Sonoma—where, in 1846, laid-back General M.G. Vallejo sportingly surrendered Mexico's hold on California without firing a shot—the Inn is an oasis extravagantly draped in salmon pink and

terra cotta. Ancient plane trees and fragrant eucalyptus shade the 70-year-old Mission-style Inn's main building where, from the moment of arrival in the grand hall, 400 employees begin beaver away at making guests feel, to use a frequent spa hyperbole, pampered.

During the 19th century, San Francisco's Nob Hill set commonly reached such valley hideaways by stagecoach. It seemed on a recent visit, however, that the only ones not arriving at the Sonoma Mission Inn by Jaguar XJ12 were my travel mate, Lonesome Dove, and I.

Like most of the 170 guest rooms at the Inn, ours was comfortably, if a little unimaginatively, decorated in the Plantation style with louvered shutters and a ceiling fan. Some of the rooms have terraces—ours did not—although we did have a fireplace that proved a nice touch for the cool Valley nights. Also pleasing was the big marble bathroom with plenty of billowy towels, and the many windows from which to take in views of the nearby Sonoma Mountains.

Perhaps the one item in the room that said the most about the philosophy of Sonoma Mission Inn, however, was the gift basket filled with mini-treats such as Famous Amos Cookies. M&M's at a health spa? Why not? It is one of the Inn's chief selling points that its guests are treated like adults—"adult" spa is indeed emphasized in its literature. Sonoma Mission Inn is neither a fat farm nor the kind of boot camp peddling spiritual enlightenment that is becoming increasingly common these days, particularly in the West. If you need to be told what to do, this is not the spa for you.

Most people, of course, make use of the spa's well-chosen equipment and spotless facilities. There is a large aerobics studio, sauna and steam rooms, indoor and outdoor whirlpools, an outdoor exercise pool (kept at a toasty, year-'round temperature of 85 degrees), and two exercise gyms with the latest in both weight and cardiovascular equipment. The 40-some-odd spa treat-

ments, however, are mainly what guests come to Sonoma for—the seaweed body wraps, hydrotherapy and mud wraps, for example.

Us, too. The Lonesome Dove vanished down the spa's gently lit hallways toward a 45-minute facial, and presently a fellow named Tom fetched me for the life-restoring "Stress Reducer," or what the spa calls aromatherapy. After offering a choice of three different scents—such as "a calming blend of lavender, bay laurel and sage"—Tom cranked up the New Age music a little and began working the elixirs into calves, feet, shoulders and especially, lower back. All of this seemingly ritualistic blending and sniffing and selecting of potions may strike some as a little hokey. I know it did me. Then again, most of what I can hazily recall now about the massage session revolves around a discussion Tom and I were having concerning, I believe, the importance of rock and roll during the Reformation. That's how far gone I was.

Until dinner. It is a short walk from the spa, past the conference center, to the Inn's main dining room, an airy space called the "Grille." And it is there that the tradition of *laissez-faire* continues with regard to guest behavior. There are two menus, a main menu and a spa menu, the latter offering selections lower in calories, sodium and cholesterol. Quite simply, you can't go wrong with either one.

I don't think there is a bad choice to be made on the main menu, but I'll make one special recommendation: tuck into a plate of the Sonoma County rack of lamb with potato gratin and grilled vegetables. Nowhere in Europe is lamb prepared better. (There are more than 200 moderate-to-expensive wines from Napa and Sonoma alone to choose from, but the management is not so parochial, or proud, that they won't gladly serve you from their selection of wines from a variety of other countries).

The "Stress Reducer," the lamb, the wine. I assure you that the day's



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last stop will be the fireplace, the king-size bed, and the stars swimming above the Valley Of The Moon.

IT WAS UNDER what Joan Didion has called California's "hard white edges and empty golden light," that I glimpsed my Lonesome Dove, showered and leaning by the window in a thirsty robe. She had been among the gaggle of guests that had returned from a two-and-a-half mile sunrise trek in the nearby Sonoma Valley Reserve, accompanied by both a physical instructor and nature guide from the Inn. Now, with that slightly superior tone early risers reserve for layabouts, she reminded me that my tennis lesson was scheduled to begin in...**FOUR MINUTES!**

Ha! If there is anything more satisfying than the *thunk!* of a tennis ball on a warm, cloudless West Coast morning, I don't know what it is. Steve Fisher, the Inn's instructor and a man who spent some years knocking around the pro circuit, only enhanced the experience by doing what no other teacher heretofore could accomplish: keeping my backhand out of the bleachers.

All classes, everything from t'ai chi ch'uan to aqua-aerobics, seem well-attended at the spa, and every level of proficiency is catered to. Less than a mile from the Inn is the Sonoma Golf Club. Back when it was first built in 1926, the 18-hole course was part of the Sonoma Mission Inn's holdings, and although the Inn still shuttles duffers from lobby to clubhouse, the course is today independently run.

An \$8.5 million renovation was completed in 1991, returning it to the grandeur that Bobby Jones and Gene Sarazen knew in the 1920s.

The Inn's concierge will set up tee times at the Sonoma Golf Club and, because one never gets that casino-like feeling of incarceration at Sonoma Mission Inn, will encourage

Some have grouched that there is no indoor walkway from the Inn to the spa, a pain mainly when it rains, which is seldom. More of a hassle is that the entrance to the Inn is damned hard to spot from the road. It should be better marked. The spa has also begun offering guests consultations in dream analysis and tarot card reading which I think threatens to jeopardize their reputation for sanity.

But these are measly grievances. The Inn does not expect to please everyone, the spa director told me, but it looks as if they come quite close indeed. At least that's the way it seemed on our last afternoon as L. Dove padded off to her Mud Body Wrap.

Meanwhile, a masseuse named Ken started me on the only antidote to the rigors of a couple of days of spa life, the "Revitalizer": start with a shower and a sauna, then some scrubbing with a formula of condensed milk and herbs, a massage using a variety of oils, then a wrap in hot Irish linens...

Ken told me he'd done this treatment for Debra Winger not long ago. And Robin Williams had his birthday party at the Inn a couple of years back. It was a scream, Ken said. The spa was full of comedians, Jerry Seinfeld, Billy Crystal...

At least that's what I think he said. I wasn't listening very closely.

Rates run by the season: November to March, \$100-\$285 per room; April to October, \$150-\$330. Call 800-358-9022; 800-862-4945 (in California).

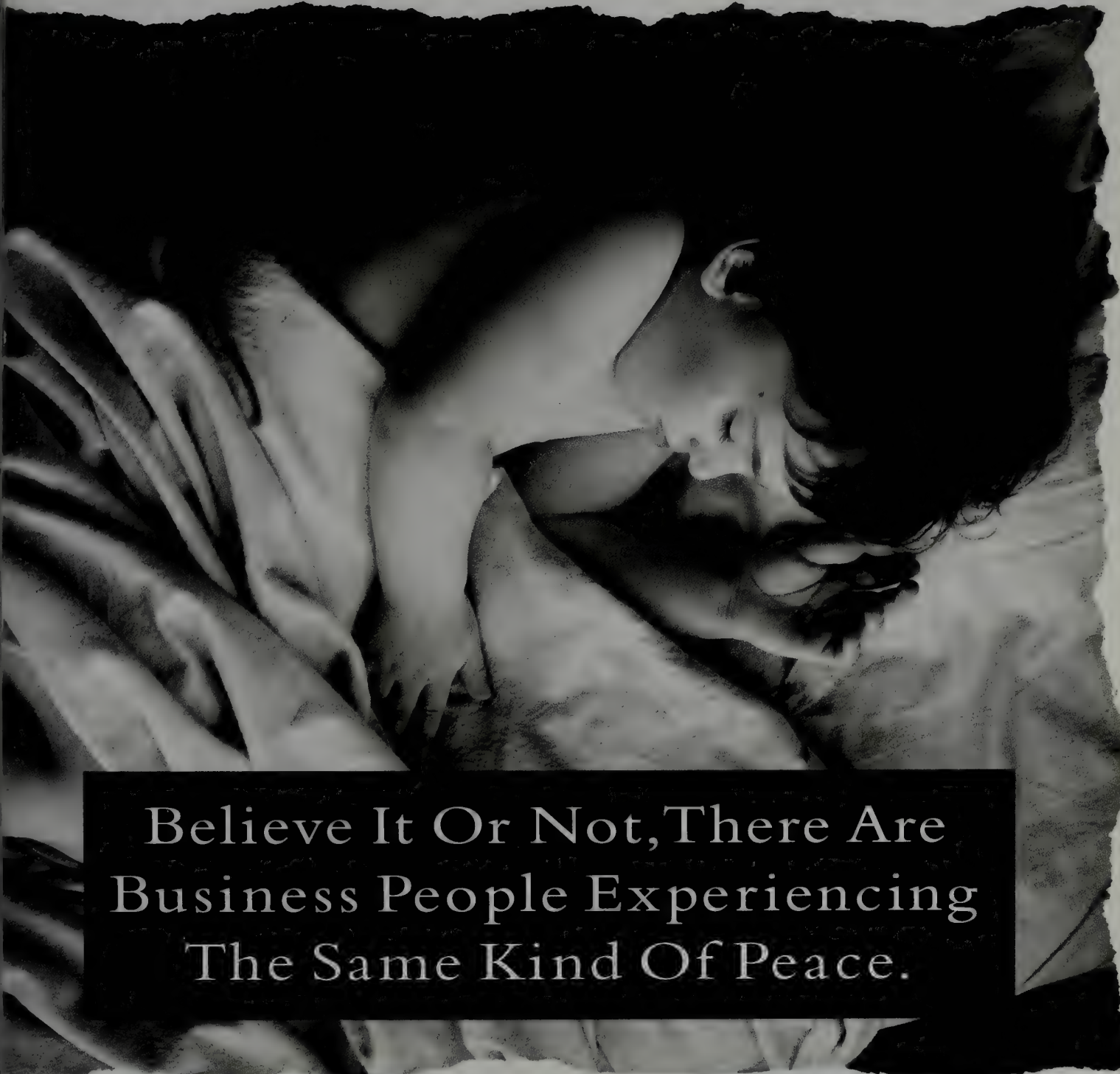
PATRICK COOKE is a free-lance writer living in New York.



The only thing wrong, reports our gratified correspondent, is that "the entrance is damned hard to spot from the road."

you to explore other activities off campus as well. There are, for example, 25 wineries within easy sipping distance of the Inn, and Napa is the next valley over. There is ballooning, horseback riding, theater, boating, et cetera.

If there are any complaints about Sonoma Mission Inn, they are few.



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IT WAS THAT ardent self-improver George Bernard Shaw who first reinterpreted the classical mind-body relationship. "*Mens sana in corpore sano* is a foolish saying," he declared in 1903, adding: "The sound body is a product of the sound mind." Anyone wanting proof of Shaw's inverted maxim only had to wait. And wait. Having published it at 47, he died at 94.

Though an accomplished survivor, Shaw was also a loner and an ascetic, denying himself meat, alcohol and goodness knows what other earthy pleasures. A pity, too, because recent indications are that wise indulgence confers real benefits, and may even buy a few years. If he'd lived it up a little, he might have lived a little longer.

Lest you deprive yourself needlessly, here are several items that

than downing buckets and somewhat more so than taking none at all.

When they zeroed in on alcohol and the heart, the results were even more striking. Compared with abstainers, moderate drinkers were 30% less likely to die in that period. And though fatal heart attacks were somewhat less common among wine drinkers than among beer or liquor drinkers, Kaiser researcher Dr. Arthur L. Klatsky says that may be because wine drinkers take better care of themselves to begin with. "All the evidence is that the protective effect of moderate drinking on cardiovascular disease has to do with the ethyl alcohol itself," Klatsky says. Is red wine, all the French ballyhoo aside, better for the heart than whiskey? "I don't think so."

Cheers

Again: When you're poised over a platter of oysters on the half shell, nothing spoils the fun quite like the

Second Opinion

Are Martinis (In Moderation) As Good For You As Red Wine? To Chew Or Eschew Oysters, That Is The Question...

.....

BY TERENCE MONMANEY

feed the mind and thus strengthen the body (as Shaw would have it), but including a couple with a distinctly un-Shavian twist.

Cheers: Yes, moderate drinkers tend to outlive slushes and teetotalers, but contrary to widespread belief, it doesn't seem to matter if one sips wine, beer or hard stuff. Or so it appears from one of the largest alcohol and mortality studies ever done, based on 128,934 men and women attending the Northern California Kaiser Permanente Medical Center, a health maintenance organization, from 1978 to 1988.

Over those years, moderate drinkers (no more than two drinks a day) were 10% less likely to die of all causes than life-long abstainers and about 50% less likely than heavy drinkers (six drinks or more a day). Generally, the researchers say that for most healthy people, responsibly drinking a small amount of alcohol—regardless of type—is much wiser

suggestion that they carry a gut-busting germ. Raw shellfish taken from dubious waters may be tainted with, among other truly sickening things, hepatitis A virus or salmonella bacteria. But washing down the mollusks with wine or hooch may offer some protection against infection, according to a study led by a Centers for Disease Control researcher.

After analyzing an outbreak of hepatitis A among raw oyster eaters in Florida, the public health specialists noted that some people who ate a dozen bad bivalves nonetheless did not get sick; indeed, symptoms of infection were significantly less common among those who accompanied the meal with a stiff drink or a glass of wine than among abstainers. One drink seemed to do the trick; people who downed two or three were no more likely to stay well. Oddly, beer drinkers were no better off than abstainers.

Granted, the observation that alcohol appears to cut one's risk of

hideous illness does not exactly make it a magic bullet against microbes in raw shellfish. That no one can explain the finding is also cause for caution. The C.D.C.'s Dr. Miriam Alter, who did not conduct the study but is familiar with the results, says: "We don't have a biologically plausible explanation for that finding." Still, the apparent edge offered by a bit of booze should lightly reassure oyster lovers who've been debating whether to chew or eschew.

Run For Your

Life? The possibility that physical exercise may have a role in preventing cancer has always struck me, frankly, as too good to be true. It hasn't helped that the idea's loudest proponents were super sunny guys with permed hair and shiny tights who got miffed if you cheated on your tummy tucks.

But the truth looks pretty good after all. A comprehensive, hard-nosed survey of all exercise-and-cancer studies suggests that physical activity clearly reduces the risk of colon cancer, even if the subjects didn't routinely break a sweat.

Barbara Sternfeld, another researcher with Kaiser Permanente in California (a coincidence), pored over scores of studies on physical activity and cancer. She found conflicting or unconvincing evidence on exercise and cancers of the prostate, bladder, stomach, breast and so on. But a remarkable 15 out of 18 colon cancer studies suggested that, on the whole, people who engaged in a range of activities (from loading

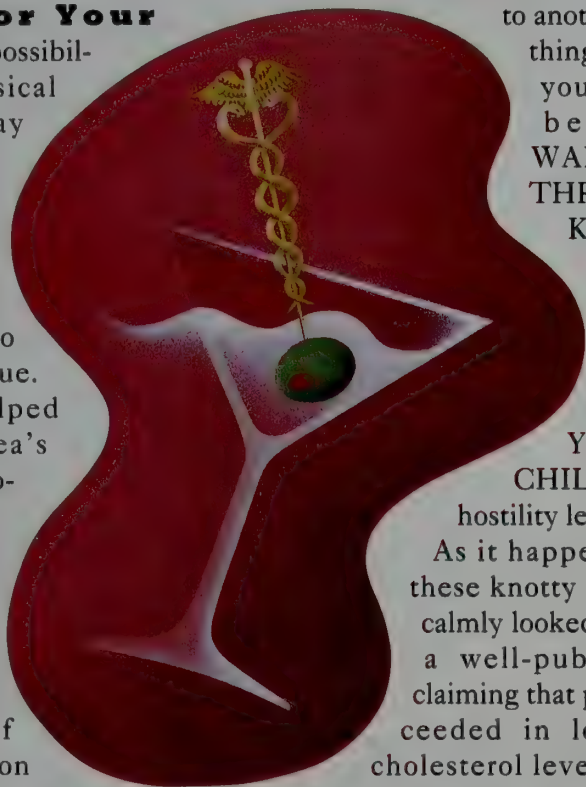
cargo on the job to regular gardening at home to running a few times a week) had lower rates of that dread affliction than sedentary people did. Exactly quantifying the activity benefit is next to impossible, but she estimates that getting moving may cut one's colon cancer risk by as much as half.

Lean And Mean? Consider the complaint that some health recommendations can backfire. After all, how many times can you be told that eating one cereal as opposed

to another is "the right thing to do," before you have a stroke because you **WANT TO JUST THROTTLE THE KNOW-IT-ALL!** What is the effect of constantly being treated **AS THOUGH YOU WERE A CHILD** on, say, your hostility level?

As it happens, aspects of these knotty questions were calmly looked into, following a well-publicized study claiming that people who succeeded in lowering their cholesterol levels appeared to have experienced more depression and hostility—some, it was said, to the point of suicide. However, a skeptical Dr. Gerdi Weidner at the State University of New York at Stony Brook performed standard psychological tests on men and women in a cholesterol-lowering program. And what she and her co-workers found was that as the subjects improved their diet and lowered their plasma cholesterol, their emotional health also improved—less depression, less hostility. Evidently, news of their progress overrode any nagging resentments and actually boosted the subjects' esteem. 

TERENCE MONMANEY is a consulting editor at American Health.



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It's easy being green at Terra Verde, where 100% natural is the rule. Stolen Flowers bath oil, \$22; Pré de Provence rich-lathering vegetable soap, \$3.50; and Widu wood comb, \$13. In New York, 212-925-4533, and Santa Monica, 310-394-1115.

Beyond the pale: shades of sand and stone on a strappy slingback in butter-soft nappa leather, by Diego Della Valle. \$260. At Diego Della Valle, New York, 212-420-8419.

Advanced Basketweaving: woven leather shoulder bag by De Vecchi by Hamilton Hodge. \$755. At Bergdorf Goodman, New York and all Neiman Marcus stores, or call 212-758-9770 for information.

THE NATURALS

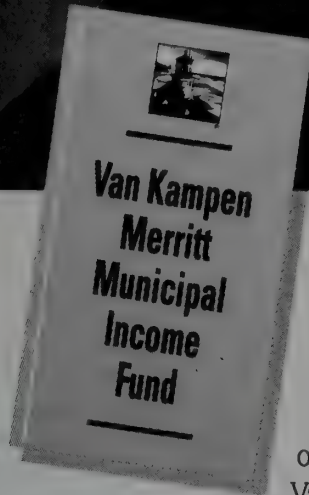
The '90s may be a kinder, gentler decade; they're also decidedly greener. More and more, consumers look for items that reflect an awareness of natural elements. The change may be as simple as a palette inspired by shades of sand and straw; or as rigorous as companies dedicated to products without dyes, bleaches or animal products. In any case, it means great gifts. Naturally. 

BY MARK GRISCHKE

Eco-Logical: undyed, unbleached linen towels, including wash mitt, \$14, hand towel, \$36, bath towel, \$60, and bath sheet, \$78. At ABC Carpet and Home, New York, 212-473-3000.



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Fore Play

Golf is more than a game—it's a way of life. So expect a love of the sport to pop up in odd places, like your wardrobe. Not just clothes for playing a round; the really fun stuff displays your true passion when you're far from the links. And while some may balk at little golfers on their ties, consider this: they've got more style than a T-shirt with the same message, "I'd rather be golfing."

—MARK GRISCHKE

Left to right: Dress shirt, \$185, and cashmere throw, \$1,750, by Bobby Jones, 800-295-3000. Polo shirt by Tommy Hilfiger, \$54, at better department stores. Red silk tie, \$65, by Countess Mara, New York, 800-727-1037. Green silk tie, \$99, hand-painted 18k gold cufflinks, \$2,437, and golf shoes by Edward Green, \$575, at Paul Stuart Madison Avenue, New York, 800-678-8278. Handkerchief by Ferrell Reed, \$28, at Ferrell Reed, San Francisco and Palo Alto; Frank Stella, New York; and Nordstrom stores. "Tee Time" Limited Edition silk braces by Trafalgar, \$135, at men's specialty stores. Poplin trousers with embroidered golf motifs, \$85, by Brooks Brothers, 800-274-1815. Golf tee 18k gold Polo Ralph Lauren, \$25 for six, and golf tee, \$9.50 for 24, by Polo Ralph Lauren Golf, at Bloomingdale's, New York, and Polo Ralph Lauren stores nationwide.



Photograph by Monica Stockton

“**V**isionnaire,

innovateur,

à travers le globe

pierre cardin

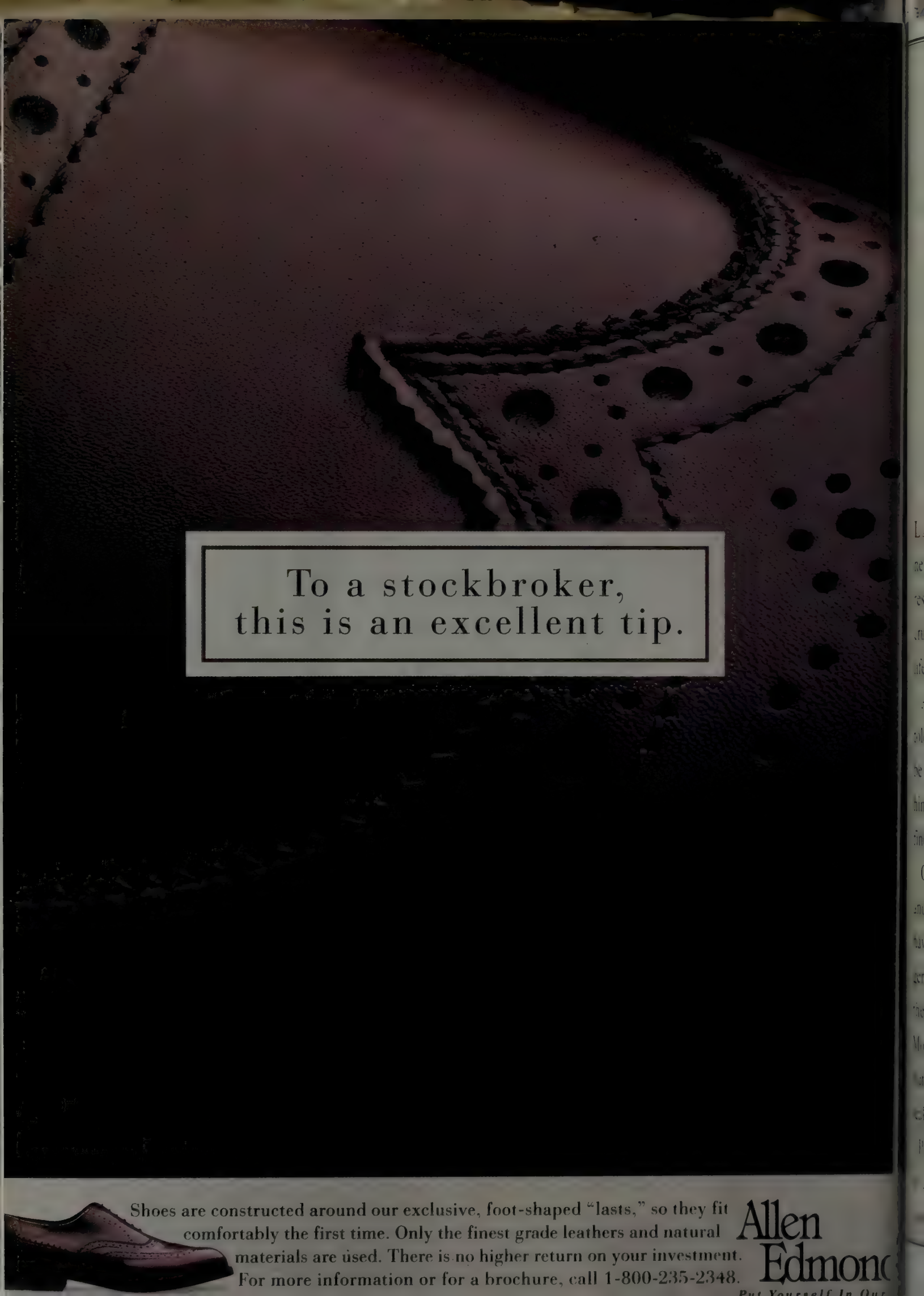
communique ses idées

...une distinction

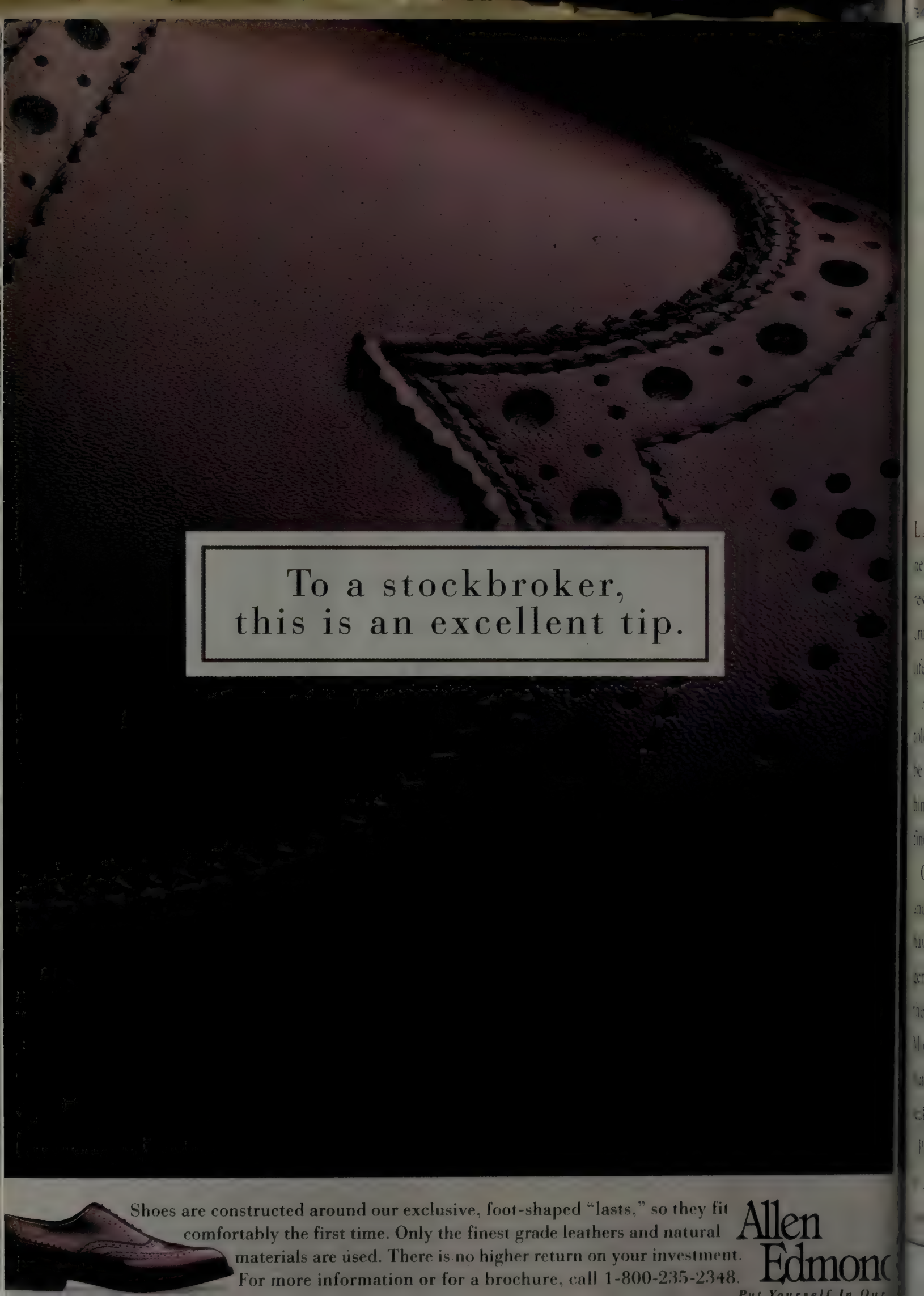
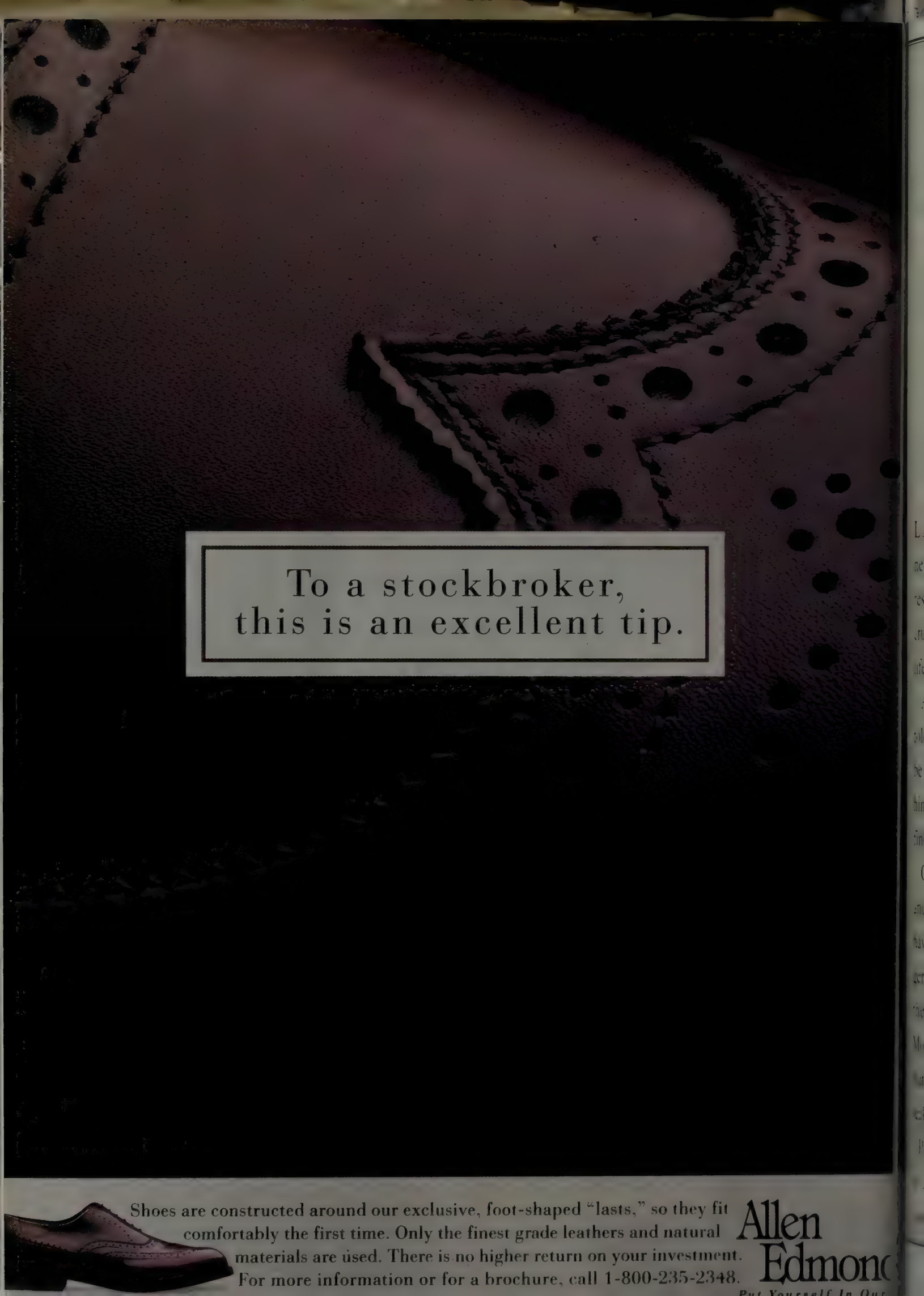
l'élégance.”

The mystique of France. The energy of America.





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Put Yourself In Our

IS THE *Gentleman* DEAD?

Or has he just stepped out for lunch?

LAST YEAR, on the occasion of the 80th anniversary of the sinking of the *Titanic*, a newspaper conducted a survey to see if chivalry had changed over the decades. The result contained ominous findings, especially if you are a lady contemplating an ocean cruise in chilly waters: only about one in three men today would give up their place in a lifeboat to a woman they didn't know.

A Mr. Mike Sigworth, one of the 200 people interviewed for the *Titanic* Test survey, told the Associated Press, "There aren't gentlemanly ways today. Everybody would just be trying to get the hell off the boat." Say it ain't so, Mike. And yet the findings bear him out. Indeed, the findings get more and more depressing as you read down the list to find that only 74% of men—and 85% of women—*would yield their seat to their own child!*

Chivalry and gentlemanliness may be two different creatures, but they are brothers, and you cannot have one without the other. Therefore, to focus our thinking on how we have managed to arrive at this deplorable state of affairs, we offer a few pages on the general subject of Gentlemen, hoping, along the way, to define what it is to be one in the Nineties. There was a great to-do recently about something called "The Men's Movement," which, as near as we can tell, involved much beating of tom-toms and butting of heads, while rolling about in the dirt outdoors. Perhaps what this country really needs is—a "Gentlemen's Movement"?

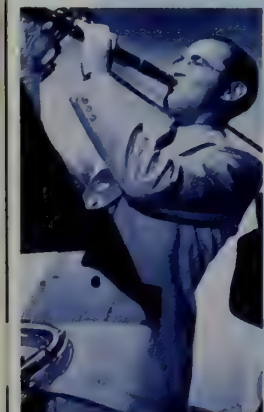
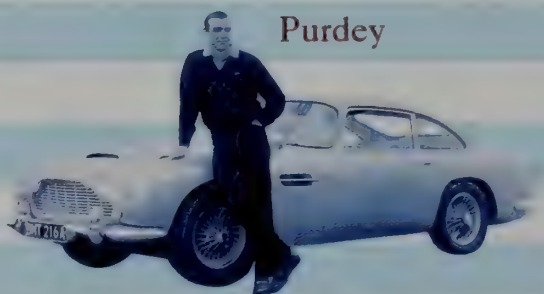
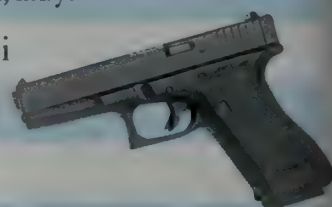
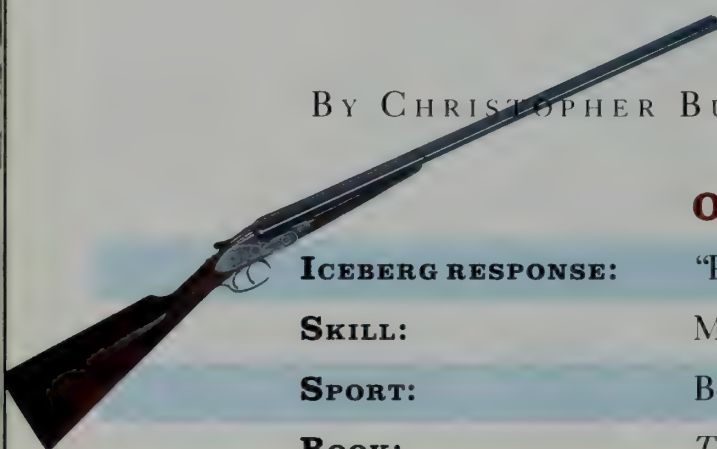
Postscript: the *Titanic* Test yielded this bit of good news: at least half the men would give up their seat to Mother Teresa. And even better news: a mere 8% would trade places with Madonna.

THE *New* GENTLEMAN

*How The World Of The Gent Has Changed Over The Years,
And How It Hasn't,
And Whether It Makes Any Difference.*

(See below.)

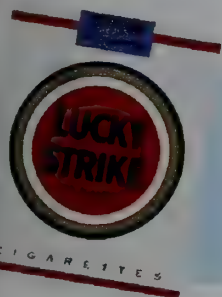
BY CHRISTOPHER BUCKLEY AND GEOFFREY NORMAN



	OLD	NEW
ICEBERG RESPONSE:	"Pray, madam, take my seat." "Outta my seat, lady!"	
SKILL:	Mix a martini	Mix a martini
SPORT:	Boxing	NordicTrack
BOOK:	<i>The Great Gatsby</i>	<i>Liar's Poker</i>
GUN:	Purdey	Glock 9mm
CAR:	Aston Martin	Dodge Viper
SMOKE:	Monte Cristo #2	Habitrol patch
MEAT:	Porterhouse	Mahi Mahi (rare)
SWEDE:	Ingrid Bergman	Isabella Rosselini
TOUGH GUY:	Bogie	De Niro
LINGERIE:	Frederick's of Hollywood	Victoria's Secret
BANDLEADER:	Benny Goodman	Harry Connick Jr.
OUTFITTER:	Abercrombie & Fitch	Orvis
HANGOUT:	"21"	Mortimer's
HEALTH CLUB:	Racquet Club	Cardio-Fitness Center
RACQUET SPORT:	Squash	Squash
FISHING HOLE:	Cuba	Key West
BOAT:	<i>Pilar</i>	<i>Endeavour</i>

(VERSUS THE

Old)



POCKET OBJECTS:

OLD

Flask
Zippo lighter
Lucky Strikes
Penknife
Condom

NEW

Equal sugar substitute
Stim-u-dent toothpicks
Nicaret gum
Penknife
Two condoms

MEDICATION:

Nitroglycerin

Prozac

MALADY:

Ulcers

Coronary blockage

CHARITY:

Boy's Town

Nature Conservancy

SHADES:

Ray-Ban Aviators

Persols

FAVORITE ECCENTRIC BILLIONAIRE:



Howard Hughes

H. Ross Perot



GREASY MATINEE IDOL:

Victor Mature

Sylvester Stallone

SHORT BAD GUY:

Peter Lorre

Danny DeVito

TALL BAD GUY:

Jack Palance

Charlie Keating

ICON:

Fred Astaire

Fred Astaire

AUTEUR:

Preston Sturges

John Cleese

WASHINGTON INSIDER:

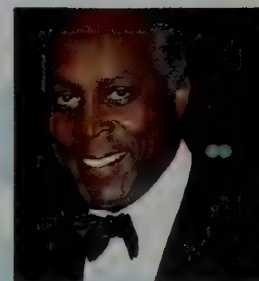
Clark Clifford

Vernon Jordan

TOUGH-GUY LAWYER:

Ed Williams

Brendan Sullivan



HORNY SUPREME COURT JUSTICE:

William O. Douglas

Clarence Thomas

DAPPER DON:

Frank Costello

John Gotti (Retired)

DASHING AVIATOR:

Lindbergh

Yeager

LEGENDARY JOE:

DiMaggio

Montana



THE *New* GENTLEMAN



OLD

NEW

PERIODICAL:

Esquire

The Sharper Image Catalogue

CHEESECAKE:

Vargas Girl

Sports Illustrated swimsuit issue

FIRST MISTRESS:

Marilyn Monroe

Gennifer Flowers

LEGENDARY ROCKY:

Marciano

Balboa

TALK SHOW HOST:

Johnny Carson

David Letterman

NIGHT OUT WITH THE BOYS:

Poker

Pool

LOSER GURU:

Charles Atlas

Robert Bly

OFFICE ROMANCE:

Secretary

Supervisor

BLUE MOVIE:

Wet Coeds

HBO's *Sports Illustrated Swimsuit Special*

PARANOID OF RECORD:

Joe McCarthy

Oliver Stone

BEST AND BRIGHTEST:

Jack

Teddy

GROOMING RITUAL:

Barbershop shave

Tanning salon

BALDIES:

Ike, Yul, Mr. Clean

Bruce Willis, Mike Milken, Rudy Giuliani, Sam Donaldson

SCOLD:

Eleanor Roosevelt

Gloria Steinem

ANTHROPOLOGIST:

Margaret Mead

Camille Paglia

NAVY ROMANCE:

The Bridges of Toko-Ri

Tailhook Association

FIRST WIFE:

Jane Wyman

Frances Lear

SECOND WIFE:

Nancy Reagan

Jane Fonda



INSUFFERABLE MEDIA MOGUL:

Bill Paley

Ted Turner

EXPATRIATE UTOPIA:

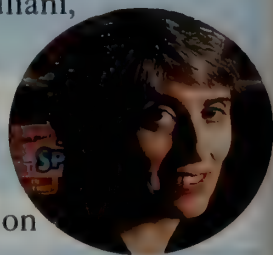
Paris

Provence

FOREIGN CORRESPONDENT:

Edward R. Murrow

P.J. O'Rourke



(VERSUS THE *Old*)

OLD

NEW

HOUSE LIBERAL:

Adlai Stevenson

George Bush

KENNEDY FLACK:

Arthur Schlesinger

Roy Black

PREJUDICE:

Jews

Japs

GOLF LEGEND:

Hogan

Nicklaus

MILITARY MASCOT:

John Wayne

Tom Clancy

BEST FRIEND:

Alsatian

Yellow Lab

**PSYCHOTIC
EPISODE:**

Nervous breakdown

Mid-Life Crisis

REMEDY:

Silver Hill

Rancho La Puerta

**SUICIDE OF
PREFERENCE:**

Jumping off building

Dr. Kevorkian

MARRIAGE RITUAL:

Picking a pattern

AIDS test

RITE OF PASSAGE:

Expulsion from prep
school

Acquittal on rape
charge

SELL-OUT LOCALE:

Madison Avenue

Capitol Hill

TRAGIC WOUND:

Jake Barnes

Bob Kerrey

SLICK WILLIE:

Willie Stark

Bill Clinton

ECO-DISASTER:

Spilling drink

Exxon Valdez

STORMIN' NORMAN:

Mailer

Schwarzkopf

SAFE PREACHER:

Billy Graham

Robert Fulghum

DRY FLY:

Royal Coachman

Goofus Bug

DESIGNER WATER:

Alka-Seltzer

Saratoga

**HANGOVER
REMEDY:**

Hair of dog

12-Step Program

**WRITING WITH
WOLVES:**

Thomas Wolfe

Tom Wolfe

DEB:

Charlotte Ford

Sydney Biddle Barrows

CASUALTY:

Bum

Homeless

SUNDAY PASTIME:

Football and beer

Football and Lite beer

CAREER PATH:

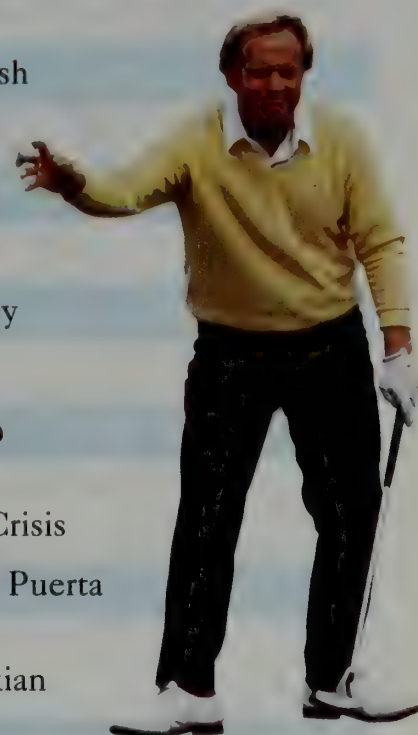
Yale → CIA → Brown
Brothers

Harvard Biz →
Drexel Burnham →
Allenwood

RELIGION:

Golf

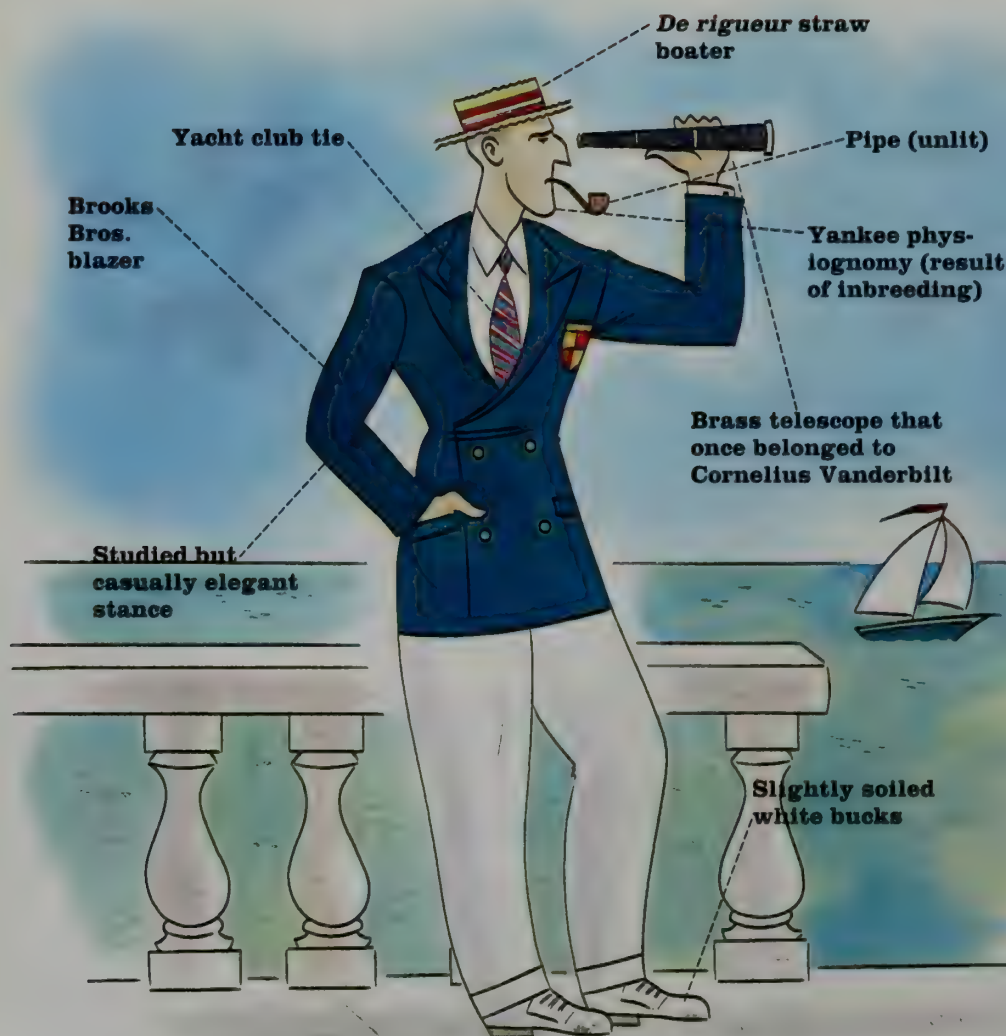
Golf 



GENTLEMEN, *Illustrated*

CHARLES STUART DUBOW *goes afield*
to record the plumages, habitats, utterances and migratory
patterns of those rare birds called "gentlemen."

THE NEWPORT GENT



Essential Quality: A profound lack of interest in anything that happened after 1960.

Source of wealth: Inherited (opium and slave trade).

Clubs: Watch Hill Yacht; N.Y. Yacht; Bath & Tennis (Palm Beach); Newport Reading Room; Knickerbocker.

Opinion of Claus von Bulow: "Nasty little man."

Greatest accomplishment: Winning yachting cup from "Pug" Bigelow in 1968.

Occupation: Sportsman.

Prep school: Groton.

Pet peeves: Nouveau riche; motor boats.

Favorite tipple: G & T.

Favorite expression: "One can tell he's not a Yale man."

THE SOUTHERN GENT



Essential quality: Ancestor worship.

Opinion of Faulkner: Traitor to his class.

Patron saints: Washington, Lee, and George Marshall.

Marriage status: Widower who lives with old maid sister and six beautiful daughters.

Source of wealth: None—lost everything in the southern liberation.

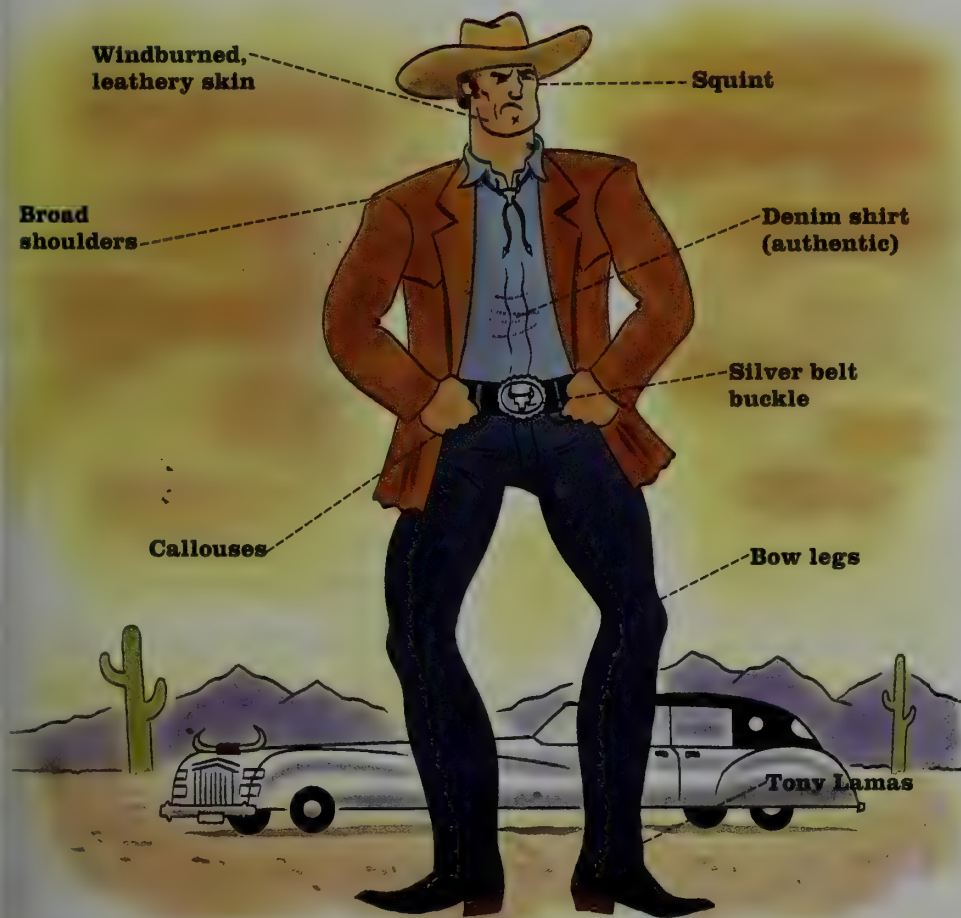
Pet peeves: Estate tax, Yankees.

Education: "The University" (of Virginia).

Favorite Expression:

"Thank you, ma'am, I do believe I will have another."

THE WESTERN GENT



Essential Quality: Always wins fist fights (but never throws first punch).

Marital Status: Wife ran away with sissy poetry professor.

Source of income: Grandfather's sweetheart deal with the Mexican government.

Idea of fun: Driving from one end of his land to the other in under two days.

Pet peeves: Libbers, hippies, and the I.R.S.

Favorite sport: Anything involving firearms.

Cholesterol count: Off the charts.

Favorite expression: "Get the hell off my land before I throw you off."

THE L.A. GENT



Essential quality: Vitamin packs.

Source of wealth: Spanish land grant/vineyards, early '80s Drexel Burnham investments.

Children: Live with mother in Malibu colony.

Favorite topic of conversation: Lawn care, self.

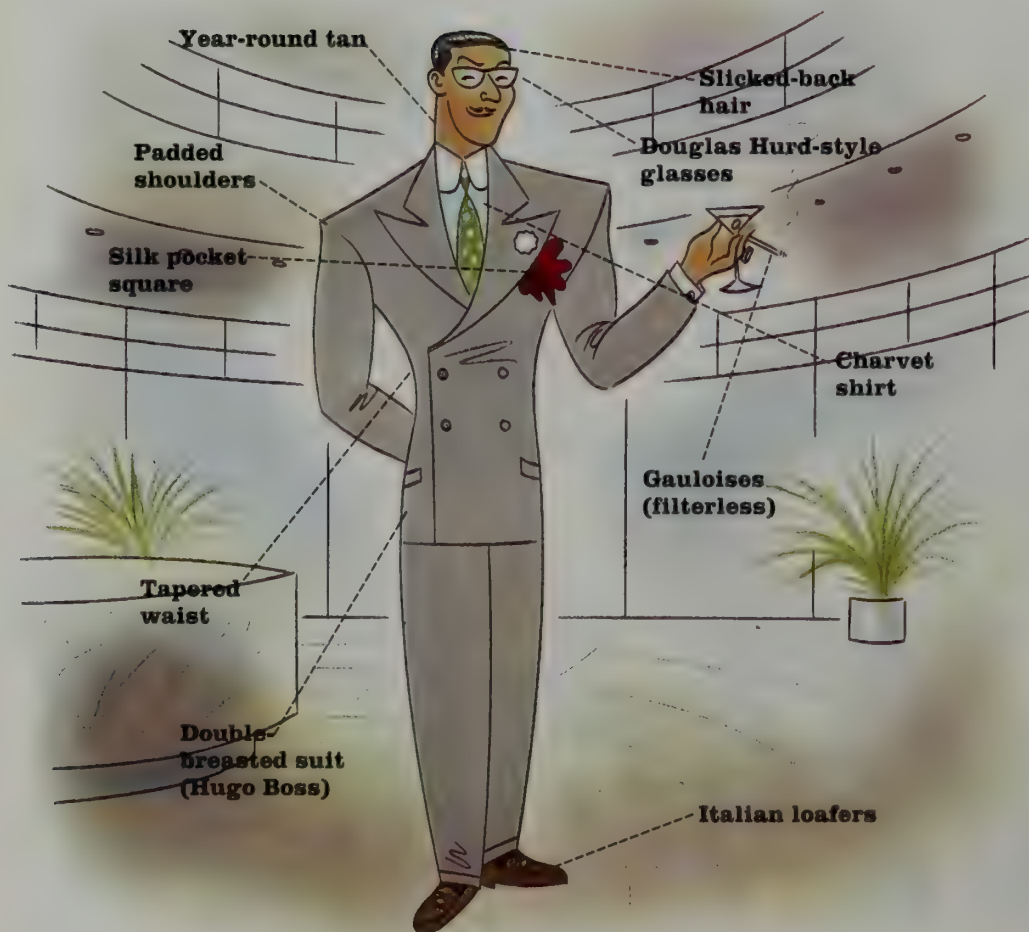
Greatest fear: Growing Latino population, home videos of LAPD.

Pet peeve: Movie people.

Favorite vacation spot: Betty Ford Clinic.

Greatest thrill: Playing chukkas with the Prince Of Wales.

THE EURO GENT



Essential quality: Hobnobbing with deposed royalty (trait shared with some Texans).

Accent: Vaguely continental.

Legal residence: Pied à terre in Trump Tower, Guernsey.

Prep school: Le Rosey.

Pet peeve: Not getting bumped up to first class.

Occupation: "Three or four things...at the moment."

Favorite tippie: Cristal.

Favorite product: Sun lamps, hair gel.

Summers in: Southampton (other peoples' homes).

Marriage status: Unmarried; prefers to date blonde models.

THE '90s GENTLEMAN



Essential quality: Gentlemanliness is learned, not inherited.

Marriage status: Married to architect.

Source of wealth: Made a pile on Wall Street, then started own boat-building company.

Cars: Owns Ford Explorer, but bicycles to work.

Greatest thrill: Birth of first child.

Sports: Sailing; hoops on weekends with buddies.

Favorite topic of conversation: Anything but real estate.

Pet peeves: Snobs.

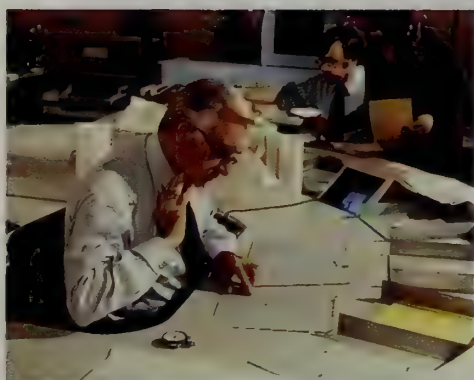
Favorite book: *Legends Of The Fall* by Jim Harrison.

Wouldn't be caught dead in: Psychoanalysis. 

C.S. DUBOW is the Roger Tory Peterson of species gentleman behavior.

GREAT MOMENTS

*Conclusive proof that the gentleman
is alive and well,
though admittedly getting on.*



March 6, 1981—Walter Cronkite signs off the air after 19 years as anchorman.

March 30, 1981—Ronald Reagan, grievously wounded, jokes to his wife in the emergency room, "I forgot to duck." Going under the anesthesia, he says to the doctors, "I hope you're all Republicans."

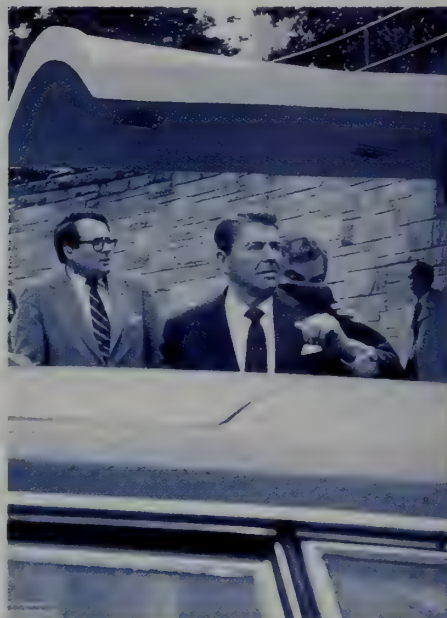
July 7, 1981—Reagan nominates Sandra Day O'Connor to the Supreme Court.

January 13, 1982—An Air Florida jet crashes into the Potomac River in Washington, D.C. An unidentified passenger keeps passing the helicopter-lowered life ring

to his fellow passengers, and then, when it is finally his turn, sinks beneath the icy waters.

June 6, 1989—A Chinese gentleman—believed to have been one Wang Weilin, a 19-year-old student—stands in front of a column of advancing army tanks in Beijing's Tiananmen Square during the student uprising, and stops them dead in their tracks. According to Amnesty International, the Chinese government will neither confirm nor deny reports of his execution.

December 16, 1989—Panamanian Manuel Noriega's thugs sexually threaten the wife of a U.S. serviceman, causing



President Bush to launch Operation Just Cause, culminating in Noriega's overthrow and capture. Noriega will be given ample opportunity to con-

template such ungentlemanly behavior during his 40-year sentence in U.S. prisons.

April 24, 1990—Michael Milken takes the fall for his brother Lowell.

February 1991—A U.S. soldier reassures craven, surrendering Iraqi soldiers, "It's okay. You're all right now. You're all right now." Bush will cite the footage of the event in major addresses not once, but twice.

May 2, 1991—After hours of



MENTS



struggle to bring in General Sherman, a 500-pound catfish, Homer Simpson acknowledges his wife's displeasure—and saves his marriage—by tossing the fish back.

August 19, 1991—Russian President Boris Yeltsin climbs on top of a tank and thwarts the coup against Gorbachev, bringing to end 74 years of spectacularly ungentelemanly behavior.

November 5, 1991—Robert Maxwell does the only decent thing,



off his yacht.

January 8, 1992—Japanese Premier Kiichi Miyazawa does not declare war on the U.S. after its President throws up on his lap during a state dinner.

March 1992—Warren Beatty, professional satyr, makes an honest woman of Annette Bening, the mother of his child. Just a little bit late.

August 4, 1992—When British sprinter Derek Redmond collapses with a torn hamstring during the summer Olympic games, the stadium audience looks on in horror. Imperturbably and magnificently, his father Jim then strides from the stands, lifts his wounded boy, and together, father and son finish the event.

December 19, 1992—Former Cuban Air Force pilot Orestes Lornezo Perez, who had defected to the U.S. in his MiG-23 a year-and-a-half before, flies a Cessna back to Cuba, lands on a highway, picks up his waiting wife and two boys and flies them back to freedom. Well *done*, sir.



...AND NOT SO GREAT

*On second thought,
maybe he is dead.*



February 16, 1959-present—John McEnroe, any day.

September 1, 1983—The Soviet Union refuses to apologize for shooting down Korean Air Lines flight 007, with 269 passengers on board.

January 30, 1985—Washington Redskins fullback John Riggins drunkenly tells dinner table partner Supreme Court Justice Sandra Day O'Connor, "Come on Sandy baby, loosen up. You're too tight," then lies down on the floor and goes to sleep.

March 1986—Dysfunctional Reagan daughter Patti Davis takes up writing.

September 17,

1986—Arbitragedian Ivan Boesky rats on his friends.

1988-present—The Reverend Al

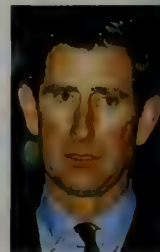
Sharpton, protector of Tawana Brawley and other savories; any day, but especially for recently pleading guilty to failing to file a tax return to make it easier to run for New York City Council President.



1989-or so—The Prince of Wales tells his mistress, Camilla Parker Bowles, wife of the Silver Stick in Waiting, "Oh God. I'll just live inside your trousers or something. It would be much easier."

November 26, 1988—Arizona State's football fans taunt the rival's quarterback, whose father had just been assassinated by terrorists in Beirut, by shouting "P-L-O!"

September 28, 1989—Boris Yeltsin shows up drenched and carrying a bouquet of flowers at a suburban Moscow police station. He initially claims to have been abducted, but later admits he was only "joking."



Christmas holidays, 1989—Casino owner Donald Trump takes his wife and mistress skiing on the same mountain. Both are *piste* off.

July 25, 1990—Comedienne Roseanne Barr (and yes, we *know* she's a woman) howls the national





anthem at a baseball stadium and then taunts the crowd by spitting and grabbing her crotch.

August 23, 1990—Iraqi leader and Kuwaiti neighbor Saddam Hussein, trailing video cameras, visits his British house-arrested “guests” and pats the head of young Stewart, telling him how lucky he is to have cornflakes when so many young Iraqi children do not.

February 1991—French actor Gérard Depardieu tells *Time* the rapes he committed as a youngster were “absolutely normal in those circumstances. That was part of my childhood.”



Spring 1991—It is revealed that Frank Forrester Church IV, senior minister of the Unitarian Church of All Souls in Manhattan, has offered to counsel the husband he is simultaneously cuckolding.

March 29, 1991—Senator Edward M. Kennedy of Massachusetts wakes up his son and nephew on Good Friday night in order to go out “for a few beers.”

April 27, 1991—At the White House Correspondents’ Dinner, Presidential physician Burton Lee wraps his arm around a female reporter’s legs and pulls her down onto his table. Said Lee: “Actually, I was more interested in a 6-foot-3-inch blonde who I asked to join our table...but she was surrounded by 42 guys, and she was taken.”

August 4, 1991—Off the coast of South Africa, Greek captain Yiannis Avranas abandons his sinking cruise liner before many of the passengers can, and tells the press he did it in order to conduct the rescue operation more efficiently, from on shore.

September 11, 1991—Clark Clifford, ultimate Washington insider, tells Congress he didn’t know that BCCI owned his bank.

October 1991—In his book, *A View From Above*, basketballer Wilt “The Stilt” Chamberlain boasts of having bedded 20,000 women. And counting.

October 6, 1991—Supreme Court Justice nominee Clarence Thomas does not call President Bush the next day and quietly withdraw.

November 5, 1991—Financial lizard Robert Maxwell does a farewell cannonball off his yacht, leaving his family and many others soaked.

January 8, 1992—President

Bush copiously vomits into lap of his host, Japanese Premier Kiichi Miyazawa. However, it is almost certain that the President, a true gent (see previous), wrote him an effusive, hand-written note of apology.

January 13, 1992—According to his wife, rock celebrity Mick Jagger ducks out one day after the birth of their third child, with a lis-some Italian model.

January 26, 1992—Governor Bill Clinton hides

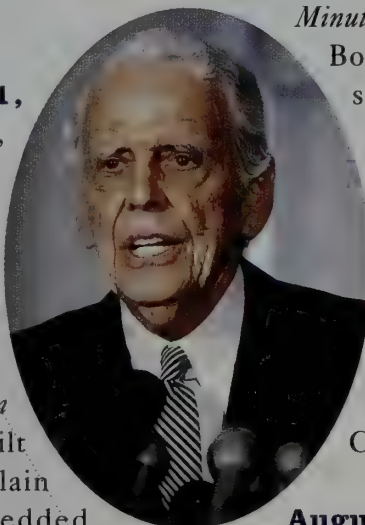
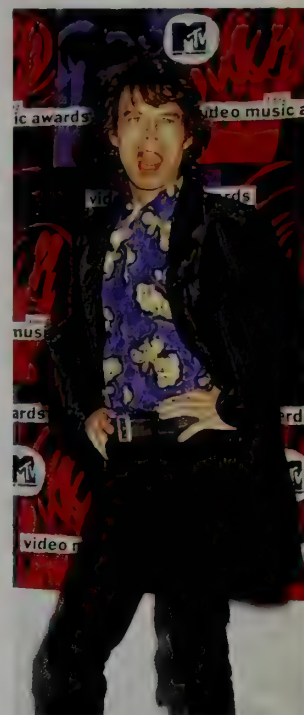
behind Hillary’s pants during *60 Minutes* appearance on super Bowl Sunday in order to salvage his campaign amidst charges of philandering.

May 25, 1992—New *Tonight Show* host Jay Leno fails to acknowledge his predecessor, Johnny Carson, on his first show.

August 1992—John Bryan, “financial advisor” to the Duchess of York, nibbles on the feet of his topless client in full view of her young children.

November 21, 1992—Senator Bob Packwood; and how.

November 22, 1992—Auteur Woody Allen tells *60 Minutes* that from where he “sat,” he didn’t see anything wrong with having an affair with his companion’s adopted teenage daughter. 



...But not entirely forgotten.

“MY WORLD IS AS DEAD AS THE AUK”

I HAVE AN IMAGE OF JOSEPH ALSOP SITTING for dinner in his favorite blue-and-white Ottoman chair. He wears sky-blue pajamas and crimson bedroom slippers made of crushed velvet. His cotton bathrobe is also blue-and-white-striped, with a vermilion handkerchief stuffed in the breast pocket. He has just come from the 50th birthday party of the fashion

of course. Caused a lot of comment.”

He drinks long, very weak Scotch and sodas. Soft, fur rugs have been laid on the living room floor of his Georgetown home for the coming winter season.

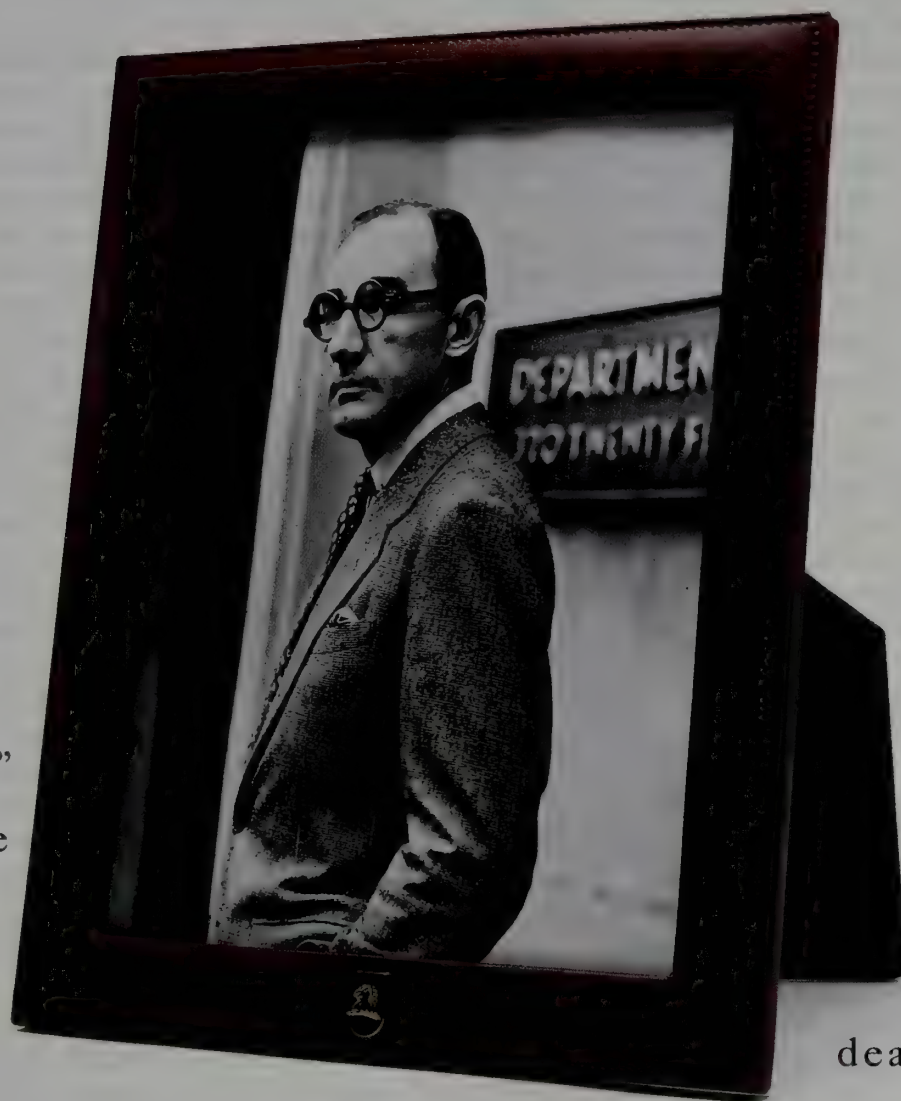
ADAM PLATT
*remembers a
gentleman of estimable
style, the late
political columnist
Joseph Alsop.*

Heavy curtains are drawn against the cold, and a fire is on. Freshly bathed, he smells of spiced soap and an old-fashioned gentleman's cologne called Florida Water.

designer Oscar de La Renta in New York City. He is 78 years old, and the experience has exhausted and exhilarated him: “Mrs. Graham and Mrs. Astor were wearing the same dress, by Oscar

He eats a dinner of cold quail and toast off ancient family china, from a tray on his knees.

“Did I ever tell you, Adam, that my father was in Mr. Billy Woodward's



Political columnist Joseph Alsop at the State Department in the 1950s.

form at Groton?”

Toward the end of his life, when I collaborated with him

on the writing of his memoirs, Joe

Alsop was always asking me questions like that. It was a ritual we had. When I did not recognize a grandee like Billy Woodward—the owner of the horse Native Dancer; a famous sportsman and head of a New York bank—he would slap both hands on his brow and stare impishly at the ceiling. “Young Platt,” Alsop would cry, “don’t tell me *yoouu* don’t *knooww*!?”

We worked together for two years, until his

death, in August 1989. His public

reputation was, and still is, as a political columnist, much feared and respected in his day. Alsop came to Washington in the early 1930s, from Harvard, by way of *The New York Herald Tribune*. Directly related to Eleanor Roosevelt, and a distant cousin of Franklin, he used his social connections to great professional effect. Dean Acheson was a friend; so were McGeorge Bundy and

Averell Harriman, John Kennedy and Henry Kissinger. Alsop's house, in Georgetown, was a famous watering hole for these men until he ended his column in 1974.

Civilization, for the men of Alsop's generation, was a tangible thing. He published six books during his lifetime, two of them on archeology and art history. Alsop was a gourmet, a gardener, a collector of Asian antiques, and a historian. He could read Latin and some Greek, and had learned 2,000 Chinese characters while a prisoner of the Japanese during the Second World War. He kept a library of over 8,000 books, and could discuss Proust, or Roman siege techniques, or the migratory habits of the blue whale. He accomplished all this on his own, without benefit of self-help manuals or videos.

But what animated Alsop during the last years of his life, were his roots. "Gentlemen, meaning members of the WASP Ascendancy or persons who aspired to be members, did not wear brown suits in the city—I have never understood why." "Gentleman" was a word he rarely used. He considered it to be an accepted condition, one which the modern world had eroded completely. I was proof of this. He had known both my grandfathers through his club at Harvard. But I was no Ivy Leaguer, and I rarely wore suits. He drove no car and watched no television, two things I did with abandon. "My world," he would groan at me, "it's dead as the auk."

He was right, of course. You could tell right off by the Alsop accent—an exaggerated, neo-Oxfordian drawl. No one talked that way anymore, not even Joe's surviving brother John, who was six years his junior. His sentences were long and perfectly formed. Vowels were drawn out and coddled in an aggressively nasal way. Modern words, like "casket," "media" and "phone," made him cringe. "I bet your mother," Joe said to me, "who hasn't interfered very much in your upbringing, tells you not to call curtains 'drapes'." When I said she had not, he sniffed. "Shows the decline of civilization," said Joe.

The Alsops were a prosperous merchant family from Middletown, Connecticut. They were known for having long noses and a keen wit, although the family fortune had faded by the time Joe was born. His mother was a wealthy New Yorker, directly related to the Roosevelts. His father, a Yale man, had opted out of the racy professions of his day to buy a farm near the town of Avon. Joe

and his three siblings dressed for formal Sunday dinners, and rode a milk truck to school. He thought this was an eccentric upbringing, and so paid desperate attention to the richer boys when he was packed off to Groton at the age of 13.

At Groton, and then at Harvard, young Alsop absorbed the established codes of behavior and style. "As for the men, the first rule was to go to London for suits and shoes as soon as you could afford it." In Avon, he and his brothers wore tuxedos to dinner. As for the suits: "dark grey, navy blue, or even black was required, albeit possibly with a discreet pinstripe, if desired. Black shoes also were essential in town—and no nonsense about it, except that with a dark grey flannel suit, it was

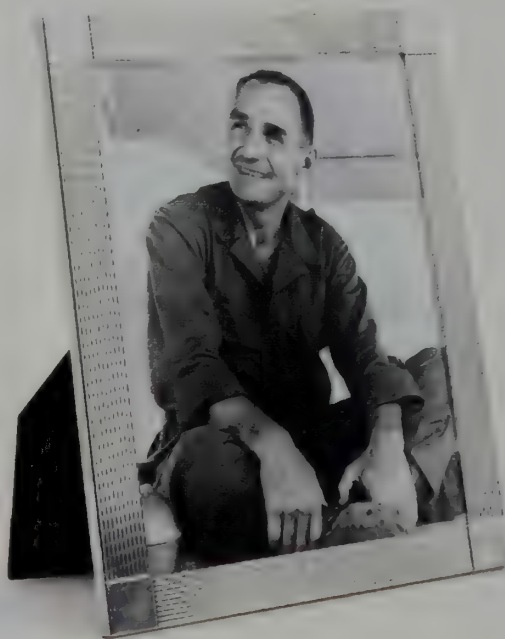
possible to wear brown shoes so repeatedly polished for so long a period of time that they all but counted as black."

Alsop reveled in these rules. "Moldering bits of WASP information," he called them, and how he remembered them all, I never knew. "By my time, men were allowed soft (evening) shirts, preferably silk, although the very young could wear white Brooks Brothers shirts. However, one still needed a dinner jacket and trousers, with black silk socks and pumps, and, to complete the turnout, a black bow tie, and a fine white—always white—handkerchief, and a cummerbund or waistcoat. Woe to you forever if you ventured a ruffled or colored shirt or necktie of the sort the young wear to what they call 'formals' nowadays."

Joe followed these codes until the day he died. The closets of his walk-in boudoir were filled with linen jackets, for summer, and darkly formal suits. "To this day,"

he wrote in his memoirs, "when I dress to go out to an old-fashioned luncheon party in Washington, I do my best to suggest a Morgan partner of 1928." He kept drawers full of bow ties and brightly colored silk pocket handkerchiefs. My appearance generally made him gloomy. Sometimes he would give me cuff links, or aged bits of haberdashery from Sulka in Paris. Always, he dissuaded me from wearing shorts. "To begin with," said Joe, "you don't have the legs for them."

He was sentimental about his own generation, and puzzled by mine. "I don't like to think that I always talk about myself," he once told me. "But it is very tempting to do when you are old and don't think that people will soon see the same things again." I once asked his advice



*"When I dress to go out
to a luncheon party in
Washington, I do my best
to suggest a Morgan
partner of 1928."*

on a birthday gift for my brother. "A pot of caviar," he said. "You and your brother should take an apartment in New York together. Between the two of you, you should be able to afford decent rooms. With the savings you should be able to afford a not-too-grand manservant. Without one the apartment is sure to be uninhabitable."

A habitable home was an important thing. For nearly half a century, Alsop lived on the same Georgetown block; first in a rental, and then in a house of his own design. He called the style of the house "Garage Palladium," since much of the building material was cheap. The rooms were wide and well-lit: conscious show places for his family curios and up-market antiques. He placed \$5,000 worth of bets on John Kennedy winning the presidency in 1960, and used the proceeds to buy a pair of gold-edged Austrian candlesticks. He kept exotic birds, and a Toucan of his once vomited on Robert McNamara's head.

Although he was a meticulous and original stylist, Alsop's tastes were essentially old-fashioned; formed through long association with a series of ancient family dwellings. His mother's family summer house was a mock-Scottish castle, on the lip of the Mohawk Valley, in upstate New York. When he described the smell of an old-fashioned house, he was describing this place:

"I believe the secret was beeswax, rather lavishly used year 'round to polish floors and furniture, plus a great many flowers from the summer gardens. At any rate, the front door would open, and this splendid scent would waft outward, particularly in summer, for this was before air-conditioning and the summer rule was still in force. It held that all windows were closed and shades were pulled until after dusk, when windows were thrown open again to let in the cool night air. And so the house's smell would tell you just what sort of decor and human atmosphere to expect after you had passed through the door."

The same, in a muted way, was true of Alsop's last home, on N Street, in Georgetown. This was a Federal-style row house, made from buffed red brick. It smelled faintly of must, good cooking, old books and old medicine. The living room flowed from one end of the house to the other. In summer, the windows were thrown open, and the tables full of flowers, and in winter the fire was always lit. Scattered about the rooms were

bits of Alsop's political, artistic and tribal past: an Egyptian mummy's hand belonging to his great uncle, Teddy Roosevelt; Hellenistic and Ch'in Dynasty figurines; numbers of inscribed presidential photographs.

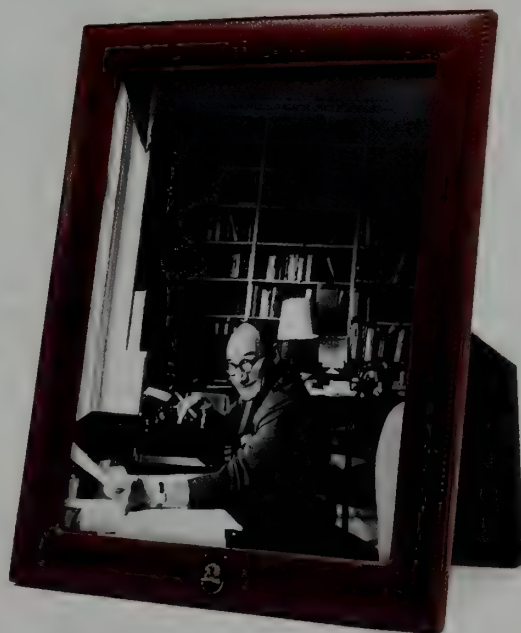
The entire space, downstairs, was devoted to the dining room and kitchen. Food was a great Alsop preoccupation. He had grown fat, as a child, on the rich country-style cooking of his father's farm. "On Sundays, even if we were alone, there was always creamed liver with creamed potatoes, a horribly fattening but deliciously rustic combination if made with farm cream; and at least once a week we had poached eggs on toast buttered with anchovy paste." There were also steamed marrow bones, boiled mutton with caper sauce, broiled chicken, "doused in egg sauce with strips of crisp bacon," roast ham, peach pickles, and mint sauce and leg of lamb.

When Alsop came to Washington, the town still had a recognizable culinary style. This revolved mainly around the grand, Southern houses of the day, many of which he frequented. In these mansions, cooks cured Virginia hams in bathtubs, and kept cribs of live terrapin in the basement. Joe had a fondness for terrapin soup, which, he said, tasted like feet. When the dish disappeared from local menus, he would import it in plastic tubs from the Maryland Club in Baltimore, to drink with crackers and Champagne. He offered some to John Kennedy on the eve of his inauguration, and the young President blanched.

Because he had no immediate family until he married at 50, Joe could afford to be cod-

dled. In fact, he demanded it. He gave aggressive tips when traveling, and was fawned over as a result. On maneuvers in Burma, before the outbreak of the Second World War, he hired a Tamil batman named Paideyah. "Imagine the general consternation," he writes in his memoirs, "when Paideyah drew the mosquito curtains of my cot in the officers' dormitory, helped me into my dressing gown and slippers, and then followed me with sponge bag and razor into the communal bathroom."

All his life, Joe had cooks, whom he trained; and until he died, the food at his table was as good as any in Washington. Each morning, his housekeeper, a tough, humorous woman named Gemma, served him a single poached egg on toast. Coffee was supplied in a huge blue and white china cup. For lunch, we ate leftovers from the



*Alsop kept exotic birds,
and a toucan of his
once vomited on Robert
McNamara's head.*

night before: chilled crab, vichyssoise, braised sweetbreads, rolled chicken sandwiches with the crusts cut off. For dinner, there could be cold beef flecked with consommé jelly, or chicken Kiev, with pureed peas, followed by lemon soufflé and Champagne.

He entertained in famously high style. The social contact always animated him; and so did the drink. "To this day, my idea of heaven is to dress in my best garments for a wedding, sit at a table of pleasant friends, and drink Champagne in an apple orchard under a New England June sun. It sounds materialistic, but perhaps it is slightly less so than the definition of heaven written by Sydney Smith, my hero of the early 19th century who was, after all, a clergyman and a canon of St. Paul's cathedral. He said that his idea of heaven was 'eating foie gras to the sound of trumpets.'"

Alsop's behavior at his own parties was legend. He stood by correct manners, but was not at all afraid of being outrageous. During his early days at *The Herald Tribune*, he kept a Japanese manservant named Buto. When the paper called while friends were over, Joe would answer in Buto's voice. "Mista Ahhsop, he not home," he would say. During the 1950s, he threw the

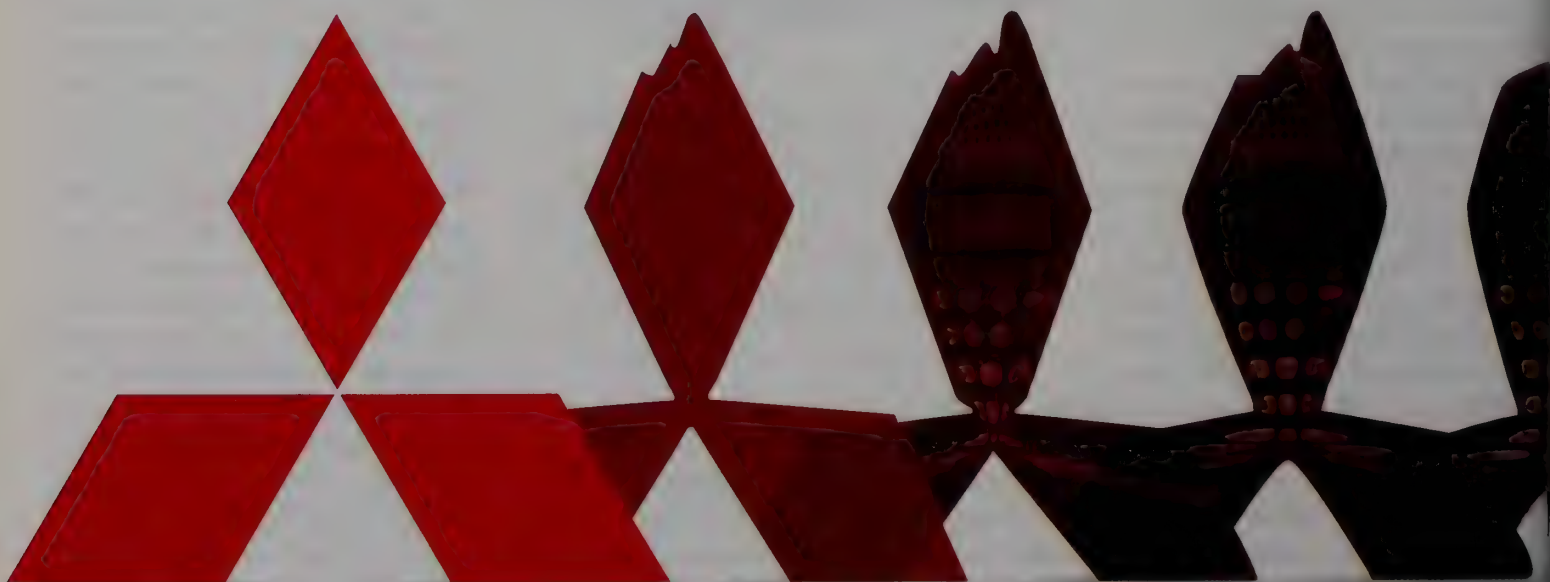
two Soviet spies, Guy Burgess and Donald Maclean, out of his house on separate occasions. Both men had gotten drunk and insulted the United States of America. Getting drunk was something most gentlemen did; insulting the flag was way beyond the pale.

Most of the men of Alsop's class and generation had been patriots, and many were drunks. Dean Acheson was a deep believer in the restorative powers of the martini. The diplomat, Charles Bohlen, once told a doctor how much he drank. "All I can say," the man replied, "is you must be one of those rare persons for whom alcohol is food." During Prohibition, Joe's club at Harvard, the Porcellian, kept its own still. His mother's family was riddled with alcoholics.

They feared he might become one too if he stayed on at Harvard Law, and so arranged for his job at the *Tribune*. Joe drank vast amounts anyway, and always plied me with liquor.

Maybe because of this, I got the impression that Alsop's generation had more fun than mine. He was called a snob by some people; but his friendships, once made, were closely held. His private correspondence was huge, and often very funny. He was a great believer in the art of gossip and chat, and considered it lost in mod-

*"Mista Absop, he not
home," he would answer in
his manservant's voice.*



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ern Washington. Michael Dukakis, said Joe, "looked like a disagreeable marmot, defending his burrow," which was exactly right. "Noriega, Noriega, Noriega," he told me after one deadeningly self-important dinner. "If I hear that name again my teeth will fall out."

When he was feeling decrepit, he liked to relive the lavish parties he had been to. In his youth, these were whitebread affairs, hugely expensive, attended by the same people again and again. He had given a party, in the '60s, for young King Hussein of Jordan. By protocol, guests were not permitted to leave before the King; and so, as Hussein danced with lady after lady, they left quietly, through the bathroom window. In England, Joe played drunken bridge with the Queen. "It's their skin you always forget," he said of the royals. "We don't manufacture such skin in this country."

Nor do we manufacture the kind of gentleman's life Joe Alsop enjoyed, and he knew it. He often said he never understood the phrase "identity crisis," and I envied him that. He did not believe in an American aristocracy. He thought members of the "WASP Ascendancy," as he called it, were often narrow-minded, unintellectual and repressed. But he had a deep sense of who he

was. As the modern world became strange and indecipherable, this knowledge comforted him. Towards the end of his life, when he was sick and his bearings were gone, he clung to it.

When I last saw Joe Alsop he was recovering from pneumonia, and had to take oxygen from a tank at his knee. When we began our work together, he had been given six months to live by his doctors. Among other things, he had lung cancer. In many ways, our dialogue had been confessional; a talk, as he put it, "of the last things." We sat down to a proper lunch of chicken sandwiches and rice pilaf. He gave me white wine to drink, disregarded his oxygen tube, and began smoking Carleton cigarettes.

*I got the impression that
Joe Alsop's generation had
more fun than mine.*

"Did I ever tell you the story of Bobby Phipps and her mother's nightly mango?"

He had told me that story. I said so, and he drifted into silence. "Well then, never mind," Joe said, finally. Then he gave me a sad grin. "An odd world," said the old gentleman, "but curiously smashing." ■

ADAM PLATT collaborated with Joseph Alsop on his memoirs, *I've Seen The Best Of It* (W.W. Norton, 1992). He lives and works in Washington, D.C.



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I gave the car a little extra gas

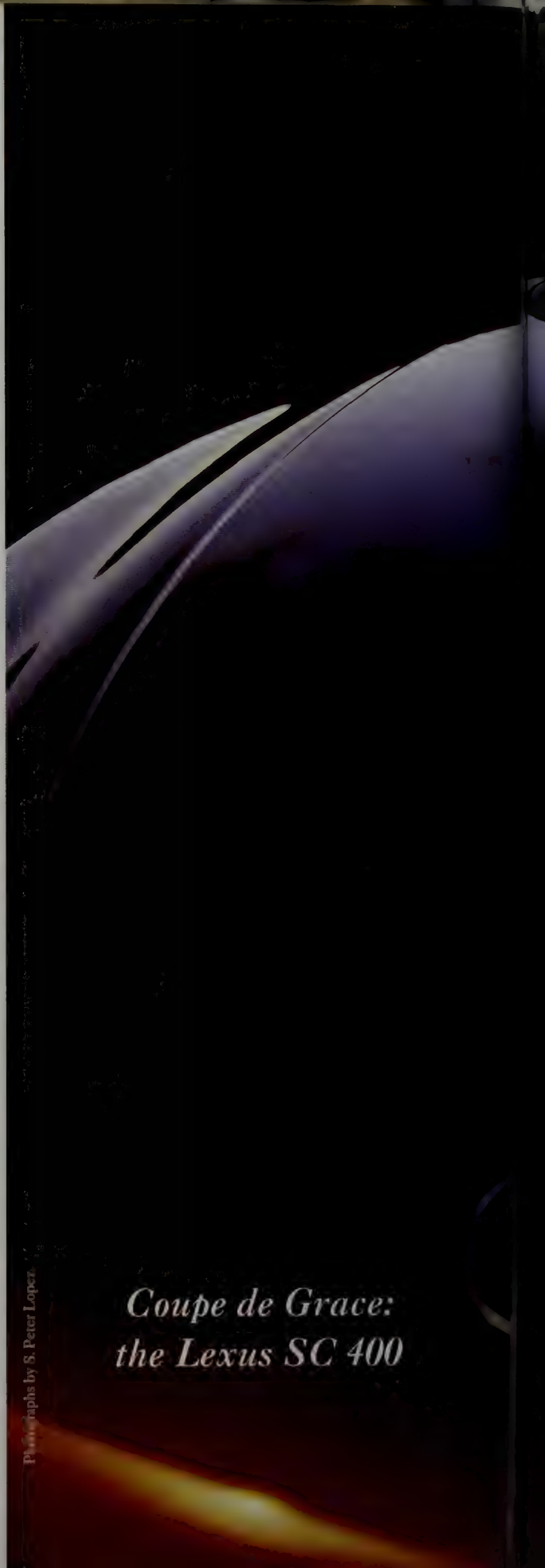
when I went by the big Moreno Valley shopping mall. I always feel like going a little harder right there, because the mall sits on the site of the old Riverside race track where I ran a lot of races in my time. I had some success there. And some of the other thing, too. But I never had anything happen as bad at Riverside as what happened to A.J. Foyt there. He crashed there one year, 1965, I think it was, coming out of turn five, and it was so bad people thought he was lucky just to be alive and that he wouldn't ever race again. But Foyt is still at it.

Everyone who races will crash. Probably more than once. When I drove past the mall and gave the car a little goose, it was just about a month after I'd crashed one, down



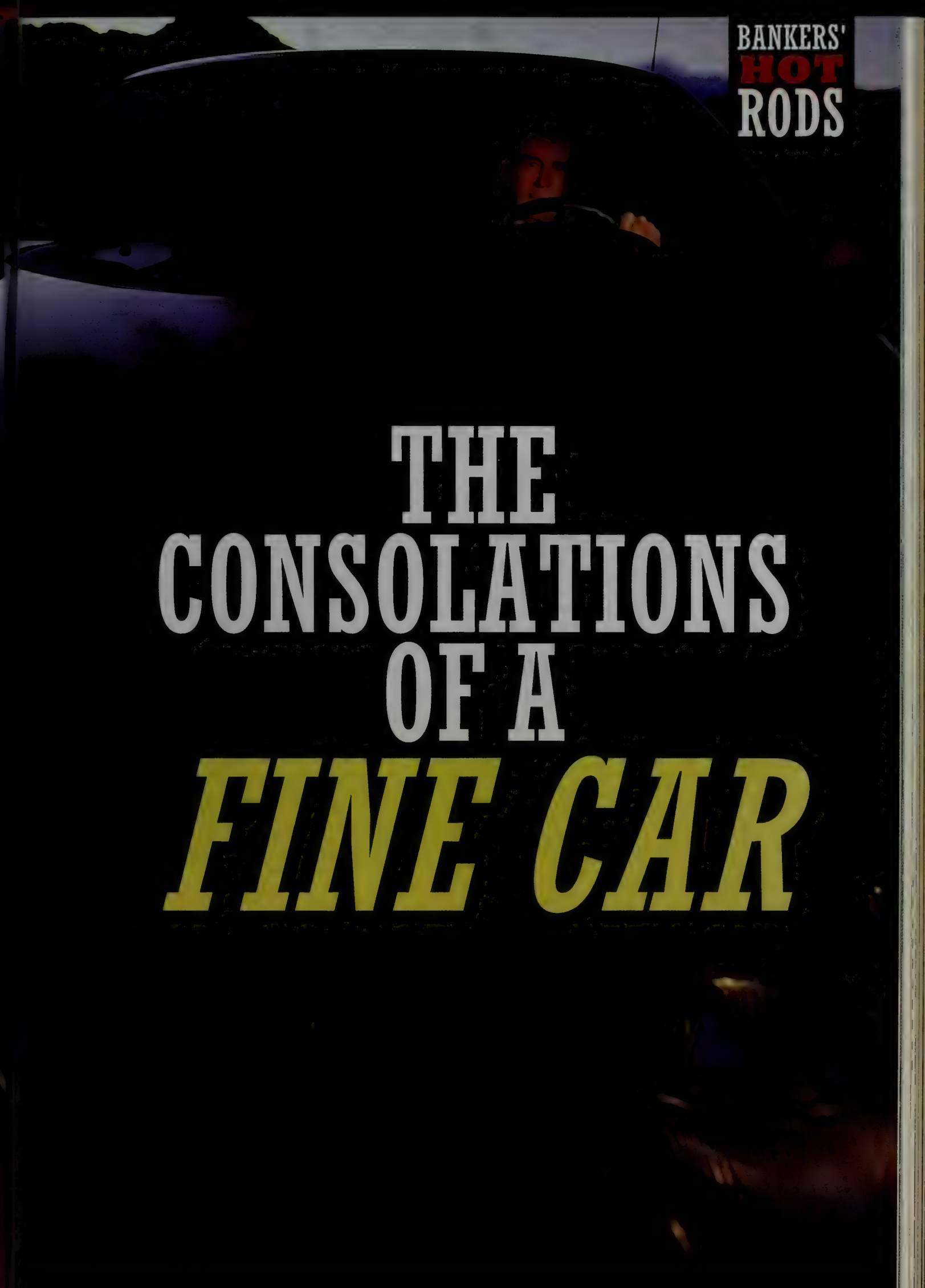
in Mexico, and it still made me mad to think about it.

I was about 400 miles into the Baja 1000—the granddaddy of the off-road races—running first in my class and fourth overall. The truck was set up great and running better, probably, than it ever had. It was just humming. I could have backed off a little and coasted and



*Coupe de Grace:
the Lexus SC 400*

Photographs by S. Peter Lopez



BANKERS'
HOT
RODS

THE
CONSOLATIONS
OF A
FINE CAR

held onto first in my class, or kept on pushing and tried for first overall which was a big reach—some of those big trucks were turning 800 horsepower—but when I'm racing, I hate holding back. In for a dime, in for a dollar, I figure. So I was standing on it when I ran out of brains.

There was one small problem with the truck—in the handling. I'd clipped one of those little scrubby desert trees early in the race with the right rear tire. I didn't know it then, but the impact had bent a little A-joint that supports the suspension. What I did know was that the truck wasn't handling in the turns quite the way it should. It was a little stiff.

Well, I came hauling down a road that was just two ruts with a high bank on the left and a steep right turn. I'd pre-run the course, and I knew the road, but when I turned the wheel, the truck didn't respond quite as fast as it should have. It rode up the bank and then...well, it turned over. Four or five times.

I wasn't hurt, and we got the truck put back together well enough to finish. But it was a long way back and a real disappointment since we'd been running so good.

After that, what I needed was to do something to get my mind off it until next racing season. So I decided to drive out to Palm Springs and play a little golf at Bermuda Dunes, where I'm a member. I figured I might as well go there in something that was fun to drive, so I called the people at Lexus and told them that I wanted to test that new coupe, the SC 400. I'd been hearing a lot about the car and it seemed like I had a responsibility, as a hard-working automotive journalist, to give it a ride.

They gave me a pretty red one and told me to bring it back in one piece. Very funny. The first thing I noticed, when I got in the car at the Lexus headquarters in Torrance, was that, while its lines are plenty sporty, you don't have to bend yourself into a pretzel to get behind the wheel. I'll put up with that for racing, but I like some comfort on the road. So I gave the car high marks for

style and started for my home up in Palos Verdes.

I'd gone a couple of miles when I started feeling hot. Like I was sitting in a car that was about to catch fire. I turned around and headed back to the garage. Whatever was wrong, I wanted to be sure that everyone knew it wasn't my fault.

Turns out, the car has heaters in the seats, and I had sort of inadvertently turned them on while I was checking out the dash. Everybody got a few grins from that. I'm the one who's supposed to know something about cars.

Well, I may not know about heaters in the seats, but I do know what I like. And I liked that coupe. Liked it a lot. There is just no way you can argue with the way they

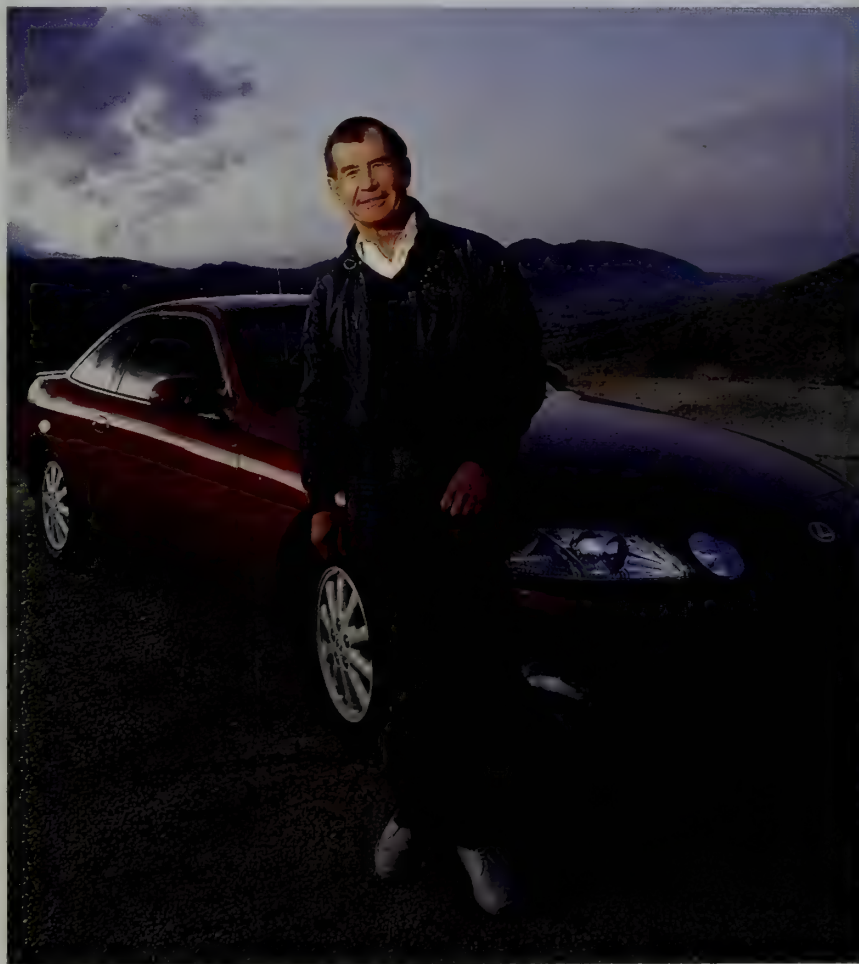
build the Lexus. The car is so tight you could probably put a propeller on it and use it for a boat. When you sit inside, you have to check the tach to see if the engine is running; it is that quiet.

That solid feeling and that quiet make the car a pleasure to drive in traffic, like when you are navigating through the commuter mazes and want to listen to some music. The Lexus has a great sound system, by the way.

I was glad to see the car handled well and felt good in thick traffic, but that has never been my idea of real enjoyable driving, no matter how fine the car. When I really get a feel for a car is when I get it out on the long

highway, where there might be some turns and some hills to keep you on your toes, and just open it up. Not too long after I passed that big mall at Riverside, I got off the main highway and took a back route, through hills that were high enough to have a little snow, and I drove the Lexus the way I like to drive.

It passed the first and most important Parnelli Jones test...it had some power. I knew the engine was a V-8 that displaced four litres and had 32 valves, but you don't ever know, until you give it some throttle, whether you've got enough power to make a car perform, or whether it is always going to feel like it's a little bit behind where you want it to be. You want the car to be running out ahead



The Lexus, says Mr. Parnelli Jones, "makes you feel better about things every time you get inside to drive it."

with you, so you've got to concentrate and pay attention and anticipate. That's when driving is fun; not when you're waiting for the car to catch up with you.

Well, the Lexus had enough power for me. It wasn't "blow your doors off" power, but it was more than adequate. And I'm not an easy grader.

I also liked the ride. The suspension was set up so that the car hugged the road tighter as you came into a turn, especially if you gave it a little gas. My car had an automatic transmission, and the shifts were so smooth that you could miss them if you weren't paying attention. The electronics are sure state-of-the-art, and you can feel it in the ride. I enjoyed myself, going through the mountains in that car. It felt good being out on the road.

Felt good being out on the golf course, too. I started playing at Indianapolis during the month you spend there testing and then qualifying your car. You have some time on your hands, and a couple of the other drivers asked me to play one day. I didn't take it up seriously until a few years later, when I decided to concentrate on my business and cut back on my racing.

Since then, I've played a fair amount and I've gotten better. I've played in a few celebrity tournaments and a few pro-ams. I was partners once with Roger Clemens, the baseball pitcher. He hit the ball a mile, but he didn't have the kind of control on his drive that he has on his fastball. And I played with Chi Chi Rodriguez, once. He

was not only good company and a lot of laughs, but he was really generous and helped me with my game.

There is only so much anyone can do, though. I'll never be a great golfer. It just isn't my game. Maybe it's too slow. This day, I was long and straight—for me—off the tee. My long and middle irons were okay. But when I got in close, I just didn't have the touch. I'd have an easy pitch-and-run up to the green from 80 yards out to put myself in shape for a birdie, and I'd hit it fat and leave it 20 yards short. One more to get on the green, and that one would run on me so that what had been looking like a very possible birdie, was now a double bogey if I three-putt and I don't have any trouble at all doing that.

Golf is a great game for learning humility.

But a great way to relax, too, and by the time the round was over, I was feeling a lot better about things. I liked the way the desert air smelled so clean, and the sky looked so high and blue. I liked the way people were admiring the car when I loaded my clubs in the trunk and turned out onto the highway for home.

By the time I got there, I knew the car could perform. My wife liked the way it looked parked in our driveway, so I also knew it had style. All in all, I'd say that the Lexus does what a really quality performance car ought to do—it makes you feel better about things every time you get inside to drive it.

Just don't forget those heaters. 

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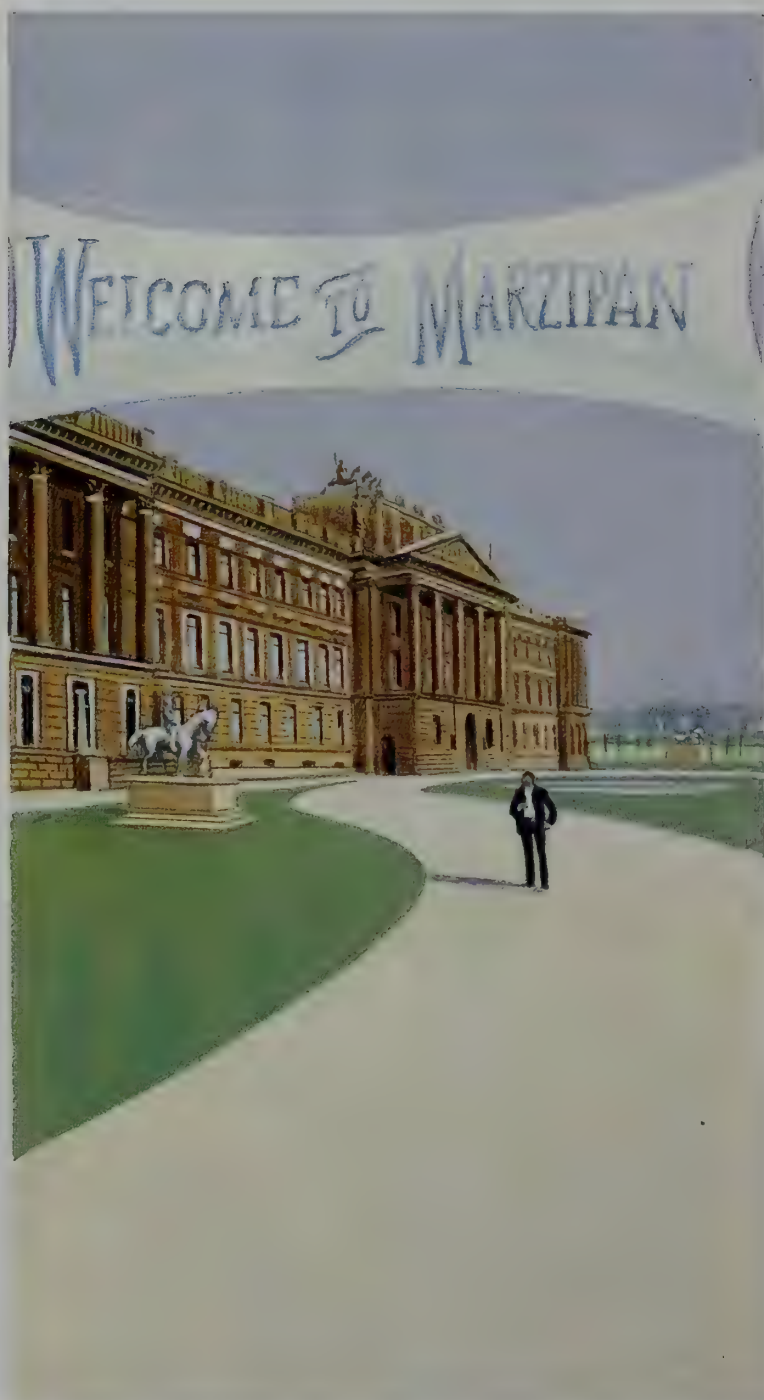


EXECUTIVES *in* RETREAT

*A cavalcade of
highlights in the history of
executive retreats.*

*Written and illustrated
by* BRUCE MCCALL

MARZIPAN - 1904



Philadelphia naphtha baron Cyrus Goforth dwelled in baronial opulence at Marzipan, his Main Line estate modeled after the Braunschweig Palace. The threat that the Government might act to break up the Naphtha Trust forced the imperious tycoon to convene what may have been the first executive retreat, at Marzipan, to plot strategy. The historian Arnold Bennett was engaged to record the proceedings; every pigeon in the rafters of the Great Hall was shot, so too the butler who dropped a jeroboam of Château Lafite. But Bennett was never to chronicle, and the Château Lafite was never to flow; Goforth the Philadelphia brahmin found nobody among his associates socially sound enough to invite to his home. The first executive retreat was never convened.

LES JARDINS DE COMMERCE - 1937

This elegant think-tank cum spa cum three-star hotel cum four-star restaurant in the suburban environs of Paris was destined to thrive but a single, brief, gaudy season.

Les Jardins de Commerce had a rooftop pool and a jazz orchestra and an indoor deer park but no meeting rooms; and with 20/20 hindsight, critics have had a field day connecting this architectural detail with its early demise. Perhaps, perhaps not. Les Jardins did have a mistress wing, and daily newspapers spanning the Monarchist, Socialist, Conservative Catholic and Popular Front spectrum—and the 7 a.m. “Race to the Croissants,” a ten-mile pre-breakfast sprint over sporting roads, with a running LeMans start and the fastest sporting bolides available. The Croissant Race winner was excused from all business affairs for the day.

Citizens who decried “the carnage on the roads near Les Jardins” in the summer of 1937 may have unwittingly hastened the institution’s end, while at the same time explaining it.





EL RANCHO
ATOMICO - 1955

New fire, new flair, new freedom from care!" Applying the hot new automotive concept of planned obsolescence to the world of executive skills, El Rancho Atomico promised to take in today's stale and lack-luster businessman and retool him overnight into next year's exciting model: taller, wider, with more power. New wardrobe, new haircut, new patter.



Geared to turn out next year's executive paragon by the thousands, El Rancho embodied the expansive Fifties spirit in every facet—from its symbolic Atomic Fountain with recycled fluoridated water, to a shag-carpeted rooftop golf course, atomic barbecue, and the spectacular "Fallout Follies," the first A-bomb shelter with live headline Vegas entertainment nightly. Planned amenities included a landing

strip for flying cars and wall-less "meeting pits" in lieu of conventional conference rooms.

Alas, El Rancho Atomico fell victim to the very concept that spawned it; planned obsolescence itself became obsolete before the project could be completed. The main building survives today as El Rancho Olds-Hyundai in suburban Downey, California.

ACME WINDSOCK CORPORATION - 1933

Sales booming in the aviation craze of the day, Ohio's high-flying Acme Windsock Corp. decided to plan sales strategy for the 1934 business year in a startlingly original yet brilliantly fitting manner: atop the hull of the giant U.S. Navy dirigible, the R-89 *Ashtabula*, as it wafted over the Buckeye State on a languid August afternoon.

What had begun as a sober business confab soon turned into an open-air party in the intoxicating ambience of the empyrean, the revelers

all unaware that a sunny summer afternoon was all too rapidly turning into clouds, then squalls, then a storm front dead ahead.

Last glimpsed early that evening near Sandusky and headed toward Lake Erie, the *Ashtabula* and its merrymaking riders were never seen again. But not until 1938, when a stretch of red cloth exhibited at a country fair in lakeside Port Dover, Ontario, as The World's Largest Mitten was found to bear the faint imprint "Acme," were the worst fears finally and forever confirmed.



SNOGGET'S STOREROOM - 1962

Legendary self-made Arkansas billionaire Jed Snogget did nothing by the book—perhaps because he was illiterate. Once a year, old Snogget locked his key lieutenants in the storeroom of his humble plastic furniture factory and kept them there until they cut the annual budget by 25% and devised a business plan that Mrs. Snogget could understand. In 1962, Snogget's stern style backfired. Doomed to spend a week in a bare room with nothing but cardboard shipping boxes and a naked lightbulb, the executive prisoners learned how to make disposable cardboard furniture, and when released formed a company that swiftly ran Snogget out of business. ⁷²



An Elephant-Back Safari In The Jewel Of The

An emerald carpet of floodplain, undulating rivers, wide lagoons. The water glistens like a diamond under a jeweler's eye-piece...Flying low at 1,000 feet it's easy to see how the Okavango Delta—the Jewel—gets its name.

Last leg of the travel. From New York to Johannesburg (the nice South African Airways stewardess tolerating my mountain of guides and pamphlets and brochures) through Maun, Botswana. All that info is fine, but packed into this little bush plane, Beryl Markham seems like the best guide of all:

"Africa is mystic; it is wild, it is a sweltering inferno; it is a photographer's paradise, a hunter's Valhalla, an escapist Utopia...It is all these things but one thing—it is never dull."

PRODUCED & STYLED BY MARK GRISCHKE

TEXT BY ALLISON MOIR

PHOTOGRAPHS BY NOEL SUTHERLAND

All prices approximate. For details, see last pages. His linen shirt, \$120, and shorts, \$110, by Men Co Silk. Belt by J.C.E. by Joseph Abboud. \$35. Crew socks by G. Walker. Hosiery by Hot Sox. \$5. Leather moccasins with red soles by Timberland. \$125. Her linen dress, \$285, and hat, \$60, by DKNY. Necklace by Crystal McDonald for Ad. Jones. \$60. Bracelet by Yves Saint Laurent Rive Gauche. \$420. Hair and makeup all pages by Mel Rau for Mark & Associates.

Kalahari



Touch down on a grassy runway. J. looks at me wide-eyed when a few dainty impala bound into high grass as we bump to a stop. A troop of baboons—hairless babies clinging to mother's bellies (Oh, Mama!)—scale a thorny acacia tree. His look says it: "Jesus.....Africa."

Engulfed by the Okavango air—hot, dry, sweet-smelling.

Not there yet, two Ker & Downey guides tell us, offering a cooler of much-needed beer and soda. (J.'s a sucker for a cold one at the right moment.) We pile into motor boats for a 40-minute ride to Shinde Island, serpentine through tight channels cut from 15-foot papyrus blossoms & reeds.

At camp our bags are whisked away. J. & I are in number 7—a green canvas tent under a canopy of marula trees. Our "love bower" looks out on the Shinde River and grasslands, where right now a herd of 30 or so red lechwe and their newborns are feeding...

Schedule looks wonderful: the dangerous game we'll track by jeep. Otherwise, the elephants ("ellies," as everyone calls them) for a real "walk on the wild side."

His linen jacket, \$400, shirt, \$125, and cotton shirt, \$125, by New Republic Clothier. Boot socks by Gordon Walker Hosiery by Hot Sox. \$10. Boots by Ralph Lauren Footwear. Eyeglasses with sun clip by Giorgio Armani Occhiali. \$300. Her linen jacket, \$365, skirt, \$225, cotton vest, \$135, espadrilles, \$50, and hat, \$60, by DKNY. Necklace by Rokoff. \$60. Sunglasses by Mary McFadden for Renaissance. \$80. Leather bag, \$1,495, and canvas tote, \$180, by Wathne Ltd. Monogram cruiser bag by Louis Vuitton. \$875.





Camp routine: game drives at dawn, but





t shower, and proper English tea...

His suede shirt, \$850, deerskin vest, \$500, and belt, \$185, by Donna Karan Menswear. Cotton shorts by Henry Cotton's, \$90. Socks by Gordon Walker Hosiery by Hot Sox, \$10. Boots by Edward Green, \$550. Louis Brandt 18K gold watch by Omega, \$7,500. Her top, \$60, suede sarong, \$585, espadrilles, \$50, and scarf, \$30, by DKNY. Beads by Erickson Beaman at Showroom Seven, \$145. African bell necklace, \$60, and earrings, \$20, by Crystal McDougald for Art Fina. Credits opposite: see page 104.



His cotton shirt, \$58, and long-sleeve t-shirt, \$30, by Banana Republic. Linen/cotton shorts by Levi's Silver Tab. \$39. Hiking boots, \$80, and socks, \$12, by Ellesse. Steel and gold 6000 watch by Tag Heuer. \$1,900. Her cotton blouse by Ruff Hewn. \$52. Jodhpurs by Ralph Lauren Country. \$225. Belt by Paolo Gucci, \$150, and field boots by Konigs, \$430, from M.J. Knoud. Silk safari-print scarf by Wathne Ltd. \$95. Sunglasses by Mary McFadden for Renaissance. \$80. Stainless steel officer's watch by Swiss Army Brand. \$200.

"Up, Abu, Up!"

We saddle up at dawn, two riders and a mahout per elephant. Quite a procession we are—three adult "ellies" with six babies straggling behind. Splashing in single file thru swampy floodplain, tiptoeing, as elephants do (if you can believe it), down trodden game paths. Sleek we're not: the five tons of elephant beneath me max out at a less-than-swift 3 m.p.h.

Riding big Abu is surprisingly similar to riding a horse. A very big horse. "Stretch do-o-o-own, Abu!" the mahouts yell, and this incredible beast lies down on his stomach, offering his "knee" for me to step on. (Amazing! I'd always thought African elephants couldn't be trained.) I scramble up and straddle the howda, J. climbs up, then our mahout gets on Abu's neck, his legs hidden by the massive, flapping ears, and commands, "Up, Abu, Up!" Abu's front legs straighten, and we cling to the howda, stuck at 45 degrees until this puissant pachyderm feels like standing up. "Up, Abu, Up!"...

Higher than an elephant's eye, I look down on a young male giraffe, his tawny face wreathed by the waxy, tender mopane leaves that he's nibbling. Cocking his head quizzically, he eyes our oncoming procession less than ten yards from his picnic spot.

Does he see me atop big Abu?...

This is really a "Stealth Safari." On the back of an elephant we blend with the wildlife. Our smell is masked by the elephant's—and howda!—and no noisy, smoke-spewing engine to send animals running. We're part of the herd, part of the African landscape...





His swim trunks by Nautica. Her "Musée" print swimsuit, \$500, and skirt, \$295, Hermès. For credits opposite see page 104.

Lunch waits for us when our elephant procession arrives at a 200-year-old fig tree. Beside a hippo watering hole, a table set with linen, silver, flowers and wine. Chicken sizzles over an open fire, spinning rods lean against a jeep. A mokoro canoe beckons at water's edge. (This kind of roughing it I can get used to.)



We spend the afternoon, blissfully hot and lazy, fishing for bream and catfish, photographing yawning hippos, climbing the aged fig, and mastering the pole-driven mokoro. And what of our redoubtable ellies and mahouts? Asleep, shaded from the unforgiving midday sun.



At twilight we track a herd of 200 or so Cape Buffaloes—curly-horned, scabby, mean-looking animals that will attack unprovoked. Hearing our jeep they run into a forest of palm trees, and we lose them for a while. We've been reading Hemingway's "The Short Happy Life Of Francis Macomber" aloud to each other, so remembering the horrific demise of Francis (dispatched by his wife for lack of grace under pressure), I'm not disappointed when our guide gives up trying to find the buffs for us...

Before dinner, we all gather for cocktails around a fire, recounting the day's sightings (are we gently trying to one-up each other?) and making tomorrow's plans.

Choices, choices. An informal lesson in Setswana and fishing for yellow- and pink-bellied bream with Amos? A game drive with Julius to find the pride of 17 lions? A mellow glide in a mokoro canoe? A guided walking safari? The elephants?

We stroll into the chattering, living blackness of the African night with a warning from the camp manager: "Don't leave your tent after 10:45 when

SAFARI, SO GOOD

Ker & Downey Botswana offers the only elephant-back safaris on the continent. A five-day elephant-back safari at Abu's Camp costs \$3,300 per person, which includes accommodations in tented camps with a maximum of 10 guests, twin-bedded tents with private bath, all meals, snacks, drinks, cocktails, wine, laundry. Malaria pills, though, are on you.

Ker & Downey Botswana also runs three other camps in the Okavango Delta and will customize a 2- to 13-night safari based on which camps—and terrains—you wish to visit. Similar amenities, including all intra-camp flights, guides, walking, canoe and jeep safaris, fishing equipment, afternoon tea and bug spray, are included. Prices range from \$795-\$3,995 per person depending on length of safari. Ker & Downey, 13201 Northwest Freeway Suite 850, Houston, Texas 77040. 800-423-4236.

South African Airways flies direct from New York to Johannesburg four times weekly. Economy class is \$2,460 roundtrip; business class is \$5,414 (50% off for second person); first class is \$7,554 (50% off for second person). 800-722-9675.

linen shirt, \$150, and
safari jacket, \$695, by
Ralph Lauren. Breeches
by Paolo Gucci for M. J.
\$165. Her outfit by
Lauren Country. African
necklace, \$60, and bead-
bracelet, \$20, by Crystal
Dougald for Ad Finem.
gloves by Hermès.
Cockpit steel and
watch by Breitling.
\$100.

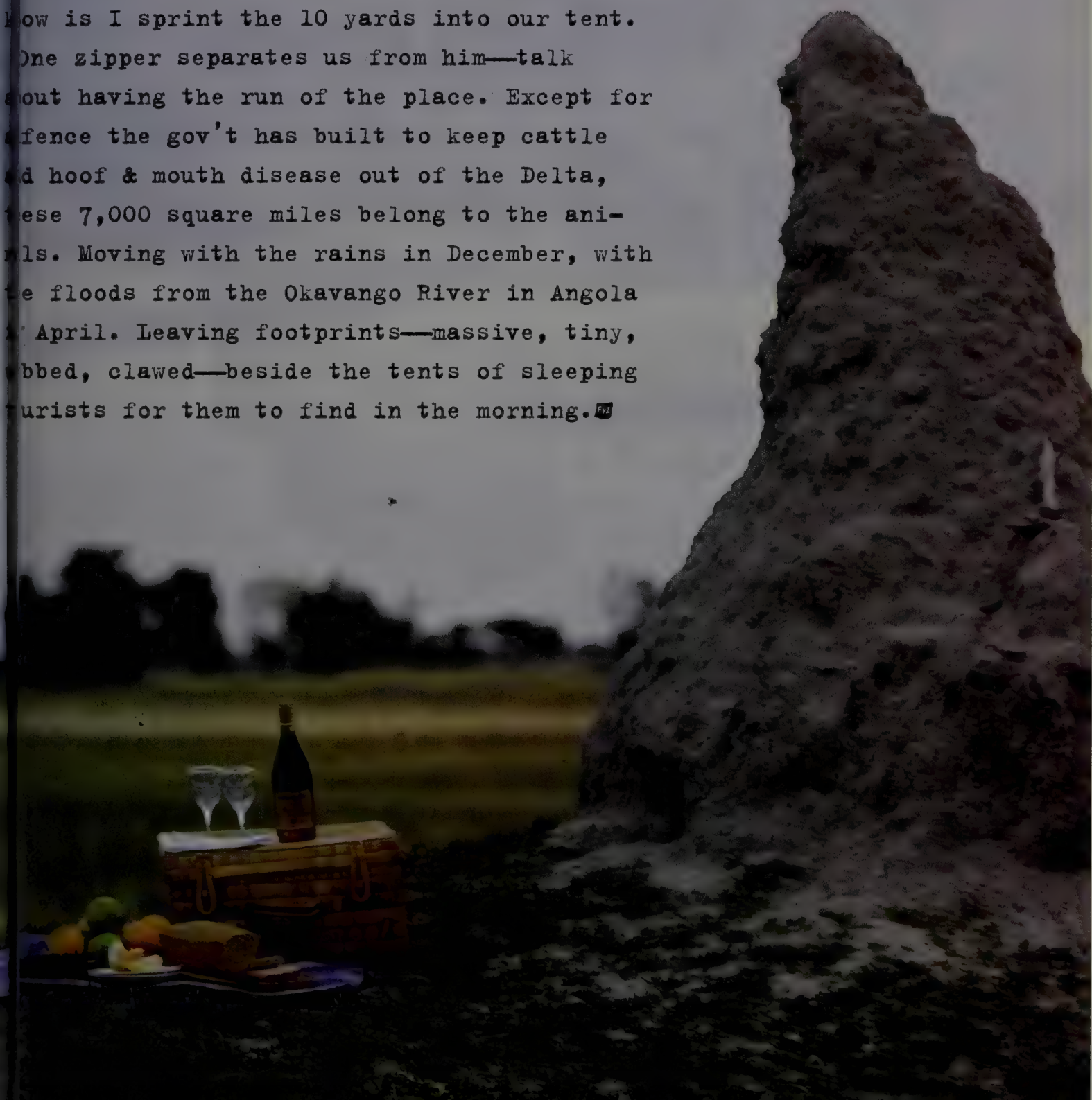
A black and white photograph of a man and a woman standing outdoors. The man is on the right, wearing a light-colored, long-sleeved shirt and shorts, with a dark tie. The woman is on the left, wearing a light-colored, sleeveless dress and a dark vest. They are standing close together, with the man leaning in to kiss the woman on the cheek. They are positioned next to a large, thick tree trunk. The background is a soft-focus landscape with trees and a bright sky.

His linen shirt, \$175, vest, \$250, shorts, \$175, and knit tie, \$75, by Calvin Klein Collection. Boot socks by Gordon Walker Hosiery by Hot Sox. \$10. Suede boots by Edward Green. \$550. Her linen dress, \$274, and vest, \$198, by CK Calvin Klein. Espadrilles by DKNY. Faux ivory necklace by Erickson Beamon at Showroom Seven. \$120. Wood bracelet by Yves Saint Laurent Rive Gauche. \$380.

the electricity goes off," she says. "Hippos come through camp most nights."

"Over here," I hear Julius whisper. Shining a flashlight at the edge of the tall grass, there, bigger than a Volkswagen bug, stands a hippo, munching loudly to fill his swollen belly, his eyes reflecting red in the light. "Don't get too close, don't be loud," Julius warns. The hippo swings his massive head (and oddly small ears) towards us. Menacing? All I know is I sprint the 10 yards into our tent.

One zipper separates us from him—talk about having the run of the place. Except for a fence the gov't has built to keep cattle and hoof & mouth disease out of the Delta, these 7,000 square miles belong to the animals. Moving with the rains in December, with the floods from the Okavango River in Angola in April. Leaving footprints—massive, tiny, hooved, clawed—beside the tents of sleeping tourists for them to find in the morning. 



Store Credits

Page 94: Breakfast in tent: His suede shirt, \$690, and J.O.E. linen shorts, \$80, by Joseph Abboud. Her shirt, \$122, and leggings, \$85, by KORS by Michael Kors. Sandals by Cole-Haan. \$138.

Bucket shower: Swimsuit by Gottex Men. \$62. Chronograph 2000 by Tag Heuer. \$1,195.

Game drive: His shorts, \$78, t-shirt, \$28, sweatshirt, \$138, jacket, \$250, and shoes, \$59, by Polo/Ralph Lauren. Socks by Gordon Walker Hosiery by Hot Sox. \$10. Sunglasses by Beausoleil from Oliver Peoples. \$145. Chrono Shark Automatic watch by Breitling. \$1,600. Her jacket, \$550, and top, \$130, by Ralph Lauren Country. Gloves by Hermès. Bracelet by Crystal McDougald. \$20. Gold watch by Omega. \$4,950.

Solitaire: Linen dress by KORS by Michael Kors. \$345. Earrings by Crystal McDougald. \$20. Bracelet by Erickson Beamon for Showroom Seven. \$30. Hat by Benetton. \$30.

Page 99: Walking safari: His shirt by the J. Peterman Company. \$83. Breeches by Paolo Gucci for M. J. Knoud. \$165. Hat by Wathne Ltd. \$48. Her silk blouse, \$138, and silver-and-gold bracelet, \$140, by the J. Peterman Company. Jodhpurs by Ralph Lauren Country. \$225. Necklace, \$125, and bracelet, \$90, by Carolee. Gloves by Wathne Ltd. \$98.

With the owl: His microfiber jacket, \$595, and leather and suede belt, \$179, by Paul Stuart. Cotton shirt by Tommy Hilfiger. \$55. Canvas vest by the J. Peterman Company. \$63. Shorts, \$58, and boots, \$100, by Timberland. Formula S chronograph watch by Baume & Mercier. \$1,295. Her blouse by Cento X Cento by ICEBERG. \$115. Suede sarong by Wathne Ltd. \$450. Earrings by Rokoff. \$55. Watch by Gucci Timepieces. \$275.

Ad Finem: Ad Finem, Brooklyn, NY, 718-852-3532.

Banana Republic: All Banana Republic stores.

Baume & Mercier: Shreve & Co., San Francisco; Henry Kay Jewelers, Chicago; and Tourneau, New York.

Benetton: Select United Colors of Benetton stores, 800-535-4491.

Beausoleil/Oliver Peoples: Robert Marc Opticians, New York; Caroline Strange, Santa Fe; and Oliver Peoples, Los Angeles.



Breitling: Hamra Jewelers, Scottsdale, AZ; Billy's Fine Jewelry, Columbus, OH; and C de Carat, Washington D.C.

Calvin Klein Collection: Barneys, New York; Bergdorf Goodman Men, New York; and all Calvin Klein stores.

CK Calvin Klein: Linen dress at Fred Segal, Los Angeles and select Lord & Taylor stores. Vest at Bergdorf Goodman, New York; and select Neiman Marcus and Robinson's stores.

Carolee: All Bloomingdale's, Macy's, and Saks Fifth Avenue stores.

Cento X Cento/ICEBERG: Maude, Beverly Hills and Oxygene, Bal Harbor.

Cole-Haan: Cole-Haan stores nationwide.

DKNY: All clothing at Neiman Marcus, Dillard's, Charivari, Nordstrom, Saks Fifth Avenue, Macy's, I. Magnin, Bloomingdale's, Dayton's and Lord & Taylor stores. Espadrilles at Toby Lerner, Philadelphia; select Nordstrom and all I. Magnin stores. Hat at Lord & Taylor, Dillard's, Nordstrom and Bergdorf Goodman. Scarf at Dillard's, Macy's West, Bloomingdale's, and Nordstrom.

Donna Karan Menswear:

Suede shirt at Barneys, New York; Holt Renfrew, Toronto; and Liberty House, Hawaii. Vest at Barneys, New York; Allure, Philadelphia; and Fred Segal Melrose Avenue, Los Angeles. Belt at Barneys, New York; Bergdorf Goodman Men, New York; and Louis, Boston.

Edward Green: Paul Stuart Madison Avenue, New York, 800-678-8278.

Ellesse: Paragon, New York and select Neiman Marcus and Bloomingdale's stores, 800-ELLESSE.

Erickson Beamon at Showroom Seven: Bergdorf Goodman, New York; Barneys, New York; and select Saks Fifth Avenue stores.

Giorgio Armani Occhiali: Kimbe Optics, New York; Ideas Optical, Detroit; and Giorgio Armani Boutique, Beverly Hills.

Go Silk: Louis, Boston; Mario's, Port-



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land; and I. Magnin, San Francisco and Beverly Hills.

Gordon Walker Hosiery by Hot Sox: Birkenstock Footprints, San Rafael, CA; Charivari, New York; New Republic Clothier, New York; Dillard's, Little Rock; Macy's East; and Nordstrom, Seattle.

Gottex Men: Stanley Korshak, Dallas; all Neiman Marcus and select Bloomingdale's stores.

Gucci Timepieces: All Gucci stores, 714-472-0900.

Henry Cotton's: Richard's, Greenwich, CT; Glasgow, Springfield, MO; Garmany, Redback, NJ; and Paul Puncher, Ontario.

Hermès: Hermès boutiques, 800-441-4488, ext. 1067.

J. Peterman Company: For catalogue orders call 800-231-7341.

Joseph Abboud: Suede camp shirt at Joseph Abboud/Family Britches, Greenwich, CT; Joseph Abboud, Boston; and Bergdorf Goodman Men, New York. J.O.E. by Joseph Abboud linen shorts at select Saks Fifth Avenue and Neiman Marcus stores. Belt at Joseph Abboud/Family Britches, Greenwich, CT; Joseph Abboud, Boston; and select Saks Fifth Avenue and Nordstrom stores.

KORS by Michael Kors: Polo shirt at Jimmy's, Brooklyn; Ruth Meyers, Oklahoma City; and Andiamo, San Merino. Leggings at Bergdorf Goodman, New York; The Front Room, New Orleans; and Gentleman's Quarter, Delmar. Halter dress at Bergdorf Goodman, New York; Gentleman's Quarter, Delmar; and select Ann Taylor stores.

Levi's Silver Tab: 800-USA-LEVI.

Louis Vuitton: All Louis Vuitton stores, 800-285-2255.

M. J. Knoud: M.J. Knoud, 716 Madison Avenue, New York, 212-838-1434.

Mark Cross: Mark Cross stores nationwide, 800-223-1678.

Nautica: The Nautica Store, New York and Newport Beach, CA; Macy's Northeast; and select Nordstrom stores.



New Republic Clothier: New Republic Clothier, New York; Barneys, Chicago; and Fred Segal Melrose Avenue, Los Angeles.

Omega: Mayor's, Florida; Dahne & Weinstein, Baltimore; and all Tourneau stores.

Paul Stuart: Paul Stuart Madison Avenue at 45th Street, New York, 800-678-8278.

Polo/Ralph Lauren: Shorts at Saks Fifth Avenue, New York; and Polo/Ralph Lauren, Chicago and Palm Beach Gardens. Jacket at Bar-

neys, New York and Polo/Ralph Lauren Beverly Hills. Sweatshirt at Bloomingdale's and Barneys, New York. T-shirt at the Polo Country Store, East Hampton and Polo/Ralph Lauren, Vail. Linen shirt and suede jacket at Polo/Ralph Lauren, Beverly Hills. Most items available at Polo/Ralph Lauren Madison Avenue, New York.

Ralph Lauren Country: Jodhpurs and top at Polo/Ralph Lauren, Beverly Hills and Chicago; top and jacket, Polo/Ralph Lauren Madison Avenue; jodhpurs and jacket also at Bloomingdale's, New York.

Renaissance Eyewear: Select Saks Fifth Avenue, Neiman Marcus, and I. Magnin stores.

Rokoff: Barneys, New York; and all Nordstrom and select Burdines stores.

Ruff Hewn: Select Nordstrom, Lord & Taylor and Dillard's stores.

Swiss Army Brand: 800-442-2706.

Tag Heuer: All Tourneau stores.

Timberland: Timberland stores in New York, Annapolis, Boston, and Washington, DC; Paragon, New York; and select Macy's and Dayton Hudson's stores.

Tommy Hilfiger: Macy's, Bloomingdale's, Dillard's, and Lord & Taylor stores, and fine specialty shops nationwide.

Wathne Ltd: To order from, 800-942-1166.

Yves Saint Laurent Rive Gauche: Neiman Marcus, Dallas; I. Magnin, Beverly Hills; and Yves Saint Laurent Rive Gauche, New York.

s s s s S n o r e ~ AND PEACE ~

“DOCTORS USED TO say, ‘If you have a good marriage, it will survive snoring,’” says Dr. Neil B. Kavey, who runs The Sleep Disorders Center at Columbia-Presbyterian Medical Center in Manhattan. “That is simply *not true*.”

Forty-five percent of all men over 50 snore to some degree, and 20% snore so loudly that the ruckus disturbs their bedpartner, according to the National Sleep Foundation. The strain of vociferous slumber, research suggests, can even increase the incidence of heart problems.

Then there’s the more, well, *nagging* problem of the grumpy, sleep-deprived spouse. Ninety percent of loud snorers are men—women generally don’t start snoring until after menopause—who are clueless to the racket they make when the soft tissues of their airway relax and their uvula (that *thing* that hangs down in your throat) vibrates. “Snoring causes terrible marriage problems because *her* sleep is being disturbed,” says Kavey, whose Center sees some 700 patients annually.

There are some solutions. Stentorian snores can be hushed by oral appliances which look not unlike hockey star Mario Lemieux’s mouthguard, that adjust the jaw and tongue positions to prevent the tissues from collapsing. Other suggestions:

1. Put the offender on a diet—extra fat tissue in the airway adds to the volume of snoring.
2. Roll him on his side.
3. Watch out for muscle relaxers—alcohol or medications which cause throat muscles to relax excessively.
4. Buy a white noise “machine” to keep your ear drums occupied, or use earplugs.

Snoring can also be a symptom of a far more serious problem: sleep apnea, which afflicts 3% of men over 50. In sleep apnea, the tissues in the airway relax so much that they block the airway completely, causing the person to stop breathing for ten seconds or longer. He then wakes up very briefly with a huge snore to re-establish the muscle tone in the airway and open it up. The result is excessive daytime sleepiness.

A 53-year-old advertising executive went to Dr. Kavey’s Sleep Center after nearly driving off a highway at 10 a.m. There, “they wire you up like an astronaut,” he says, and observe your sleep. His computer readout, which measures every heartbeat, breath, brainwave and movement, looked like the Richter scale gone berserk; he woke himself up once every 40 seconds—629 times altogether—with a huge, loud snore.

Dr. Kavey prescribed a mask connected to an air compressor that forces air into his airway. If that doesn’t work, surgery to remove excess tissue in the airway or nose is the next option.

“Watch out for the attitude, ‘I’m getting old and I’ve always been a loud snorer,’” Kavey advises. “Because apnea and sleeping problems are like hypertension. They can creep up on you.”

If you won’t do it for yourself, do it for that poor, sleepless spouse tossing and turning next to you. **ms**



BY ALLISON MOIR

Most major universities have sleep centers. Call the National Sleep Foundation (310-288-0466) for information. In New York: the Sleep Disorders Center at Columbia-Presbyterian Medical Center (212-305-1860).

THAT'S SHOW BUSINESS

FIVE DECADES OF THE AMERICAN BUSINESSMAN
(AND WOMAN) IN FILM — BY DAVID TAYLOR



"The chief business of the American people is business."—Calvin Coolidge

"There's no business like show business."—Irving Berlin

How does the movie business deal with the business of business? Just like it deals with anything else. The good guys win, and the bad guys lose. The hero gets the girl, and the villain gets the shaft. Virtue triumphs over evil. The variations lie in the evolving definitions of good and evil. In 1933's *The Power And The Glory*, Spencer Tracy's Tom Garner is destroyed because he sheds his wife to marry another woman. In 1988's *Working Girl*, Harrison Ford and Melanie Griffith romp around his apartment in the buff and still make the big deal. Thank God for progress. Decade by decade the movies reflect the widest common denominator of the country's dreams—not what reality is, but what we want it to be—because if you give the people what they want, they'll buy your tickets and your popcorn, and they'll send their friends to do the same. And that's what it's all about, because, hey, baby, it's show BUSINESS.

DAVID TAYLOR WRITES MOVIES IN LOS ANGELES.



"I wanted the power and the money...you wanted to go fishing."
 —Sally Garner to her husband, Tom.



STARRING: *Spencer Tracy,
 Colleen Moore, Ralph Morgan,
 Helen Vincent.*

PRODUCED BY
Jesse Lansky.

WRITTEN BY
Preston Sturges.

DIRECTED BY
William K. Howard.

It's the Depression. The country's economy is in the toilet. You can't walk down Wall Street without getting hit by a jumping stockbroker. Somebody's got to take the rap.

Spencer Tracy's Tom Garner is the president of The Chicago & Great Western Railroad. He's a cheerful stock manipulator, a happy takeover artist, a financial pirate unfettered by the niceties of law or common business practice. Like *Big Business* in the Twenties, Tom is having a hell of a lot of fun. Then he meets his Black Tuesday, Eve Borden, the 26-year-old daughter of an industrialist who pimps her to Tom in hopes of keeping his job.

This isn't the Eighties, where philandering gets you a social disease and heavy alimony payments. This is the

Thirties. The Movie Production Code governs Hollywood: "The sympathy of the audience should never be thrown to the side of crime, wrongdoing, evil, or sin." Transgression gets you RETRIBUTION. YOU WILL PAY!

And pay Tom does. The Gods keep picking him up to knock him down. His son Tommy gets thrown out of Yale for drinking...but Tom faces down the wide-eyed Wobbly who leads his workers out on strike. His men cheer him...but they stay out on strike, and 406 of them get killed by the cops. His new wife presents him with a beautiful baby, but it's his son Tommy's. The movie ends in despair, recrimination, and a welter of blood.

Lighten up, Hollywood. Prosperity is just around the corner.



STARRING: *James Stewart, Henry Travers, Donna Reed, Lionel Barrymore.*

PRODUCED AND DIRECTED BY
Frank Capra.

WRITTEN BY
Frances Goodrich, Albert Hackett, Frank Capra.

"What are you running, a business or a charity ward?"— Henry Potter.

It is 1946 and the economy, yanked from the Depression by the industrial urgency of a World War, is about to boom. In Hollywood Frank Capra defines American business through the conflict between Jimmy Stewart's George Bailey and Lionel Barrymore's Henry Potter.

George Bailey is Frank Capra's businessman ideal—tough, honest, witty, sexy, frugal yet generous. No Charles Keating, he is consistently selfless in his dealings with the "little people" who make up the clientele of The Bailey Building & Loan Company. If he wasn't Jimmy Stewart, he'd be insufferable.

Henry Potter, "the meanest man in Bedford Falls," is monolithic, conscienceless Big Business in a wing collar, with a bust of Napoleon at his elbow. He hungers to own everything in town, and to hell with any "garlic eaters" who fall under his wheels. The only business he

does not control is George Bailey's, and that gnaws his liver. He drives George to the brink of suicide to get it.

God, represented by an animated blob of chewing gum set against the blackness of space, sends an angel to show George what life would be like if the Potters of the world won. Bedford Falls would be a town of honky tonks, hookers and lousy manners, rather like New York today.

This is Capra's tribute to the American small businessman's victory over the forces of heartless money-grubbing. Good-hearted money-grubbing is fine. George's friend Sam Wanamaker invests in plastics, becomes a multi-millionaire, and is there to help George in his time of need. Plastics—a word that will resonate through the next 25 years of movie-making, and culminate in that famous one word of career advice to Dustin Hoffman in *The Graduate*.





"I can't make that meeting. My son has a Little League game."

— Don Walling.



STARRING: William Holden,
June Allyson, Barbara
Stanwyck, Fredric March,
Walter Pidgeon, Shelley Winters,
Louis Calhern, Dean Jagger.

PRODUCED BY
John Houseman.

WRITTEN BY
Ernest Lehman. From the
novel by Cameron Hawley.

DIRECTED BY
Robert Wise.

It's 1954, and America is muscular with prosperity. America is business, and business is America, according to Robert Wise and his writer, Ernest Lehman. The executive suite of the Treadway Company is baronial in its splendor, the conference rooms vast enough for polo. But the top suite is empty. "Sic transit gloria mundi." Mr. Bullard has died. Bullard, who pulled Treadway out of the Depression, assumed "dictatorial powers," and drove the company to the pinnacle of success. (Do we detect the ghost of FDR dragging chains through this movie?)

Which vice president will succeed to the top floor? Fredric March's sweaty-palmed, bottom line, blackmailing, back-

stairs manipulator? Paul Douglas's glad-handing, weak-willed, secretary-jumping salesman? Dean Jagger's old-line production man, caught in the past, scared of the future? Walter Pidgeon's elegant, perennial second banana? Or William Holden's Don Walling, married to the most adorable, supportive, strong-yet-knows-her-place-is-in-the-home June Allyson, with a son who pitches Little League? Don Walling, who loves to get his hands dirty with the working man on the production floor, who has a clear-eyed vision of a tomorrow built on a quality product, hard work, and honesty? Who will lead Treadway/America—America/Treadway into its golden future?

Take a wild guess.

"Money is a byproduct." – Linus Larrabee



STARRING: *Humphrey Bogart, Audrey Hepburn, William Holden.*

WRITTEN FOR THE SCREEN BY
Billy Wilder, Samuel Taylor, and Ernest Lehman.

PRODUCED AND DIRECTED BY
Billy Wilder.

Businessmen are the aristocracy of the American Fifties, and the Larrabee family is Royalty. They live on an estate in Oyster Bay with a servant for every need, and Sabrina growing from ugly duckling to swan in the chauffeur's quarters over the garage. It's as close as you can get to heaven and still commute to New York. Linus Larrabee is the Chairman of the Board of Larrabee Industries, a vertically integrated company of immense wealth and power. A Linus Larrabee memo can cause 60 tankers to sail. He can have a factory built on a phone call, a "20 million dollar merger" started on a whim. (Forget that we pay mediocre ballplayers that much today. These were 1954 dollars.) Nothing is beyond his grasp.

And what's he reaching for now? Plastics, long before that became a dirty word. Plastics, the crystallization of the

optimism of the Fifties, a miracle product for a miraculous time. Why does he want it? For the millions it will reap? "What's at the end of a million? Zero, zero, zero...nothing, with a hole in it." For the power? "Power's just a word." No. For what it will *build*. "A new product's been found. A new business grows up. A factory gets built. People who never saw a dime before suddenly have a dollar. And barefooted kids wear shoes and have their teeth fixed and their faces washed." Hospitals get built, libraries, baseball diamonds, and there'll be "movies on a Saturday night."

Linus Larrabee, played by Bogie with a hint of hardcase gunsmoke, is strong enough to build empires, sensitive enough to fall in love with Sabrina, the chauffeur's daughter, and romantic enough to sail to Paris with her on the *Liberté*. God, the Fifties. Let's get them back.





“Please, no culture, just cash.” – C.R. MacNamara



STARRING: James Cagney,
Horst Buchholz, Pamela Tiffen,
Arlene Francis.

WRITTEN BY
Billy Wilder and I.A.L.
Diamond. Based on a play by
Ferenc Molnar.

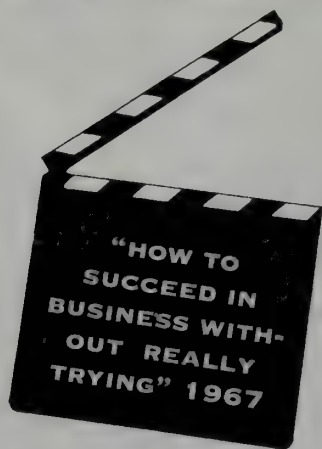
**PRODUCED AND
DIRECTED BY**
Billy Wilder.

Cagney, Commies, the Cold War, and Coca-Cola. In the most prescient movie of the second half of the century, C.R. MacNamara, Coca-Cola's man in Berlin, shows us what we now know to be true. Beneath the cruddy Khrushchev suit of every Lenin-loving Red beats the heart of a capitalist yearning to be free.

C.R. has heart complications too. He ignores his wife, never speaks to his children, runs his German office staff with the intractable will of an SS colonel (to the staff's delight), and spends too many evenings away from home fondling his secretary's spectacular umlauts. His boss's bubbleheaded daughter, left in his care, has fallen in love with and married an East German named Piffel. No problem. Get him arrested by the Vopos as an

American spy. But she's pregnant. No problem, a few judicious bribes and he's back on the street. But C.R.'s boss is arriving, and he hates Commies. No problem. C.R. MacNamara is a guy who CAN GET IT DONE. In 15 minutes he hoses away 25 years of indoctrination, and turns a shaggy-haired, Marx-spouting, underwear-lacking, anti-capitalist into a morning-coated, bowler-hatted, umbrella-toting aristocrat with a firm grasp of market strategy and an instinct for disciplining servants.

Billy Wilder knew it way back when: get those striped pants, bumbling, protocol preaching, dim-witted diplomats out of the way, and the American businessman would have hammered the Iron Curtain to bottle caps by 1962.



"A secretary is not a toy." – Mr. Bigley

STARRING: Robert Morse,
Michele Lee, Rudy Vallee.

MUSIC AND LYRICS BY
Frank Loesser. *From the play*
by Abe Burrows, Jack
Weinstock and Willie Gilbert.

WRITTEN, PRODUCED,
AND DIRECTED BY
David Swift.

This cotton candy confection celebrates the moment when America fell in love with the idea of "instant"—instant coffee, instant orange juice, instant cocoa, instant photographs. Why not an instant business career? Just add ambition, and stir.

Robert Morse's J. Pierpont Finch romps through the Worldwide Wicket Company looking like a gap-toothed, demented chipmunk. He zooms from window washer to president in less than a month by trickery, chance, smarm, and powerful suck, skills not taught at Wharton and The B School. Rudy Vallee's Mr. Bigley, the president Finch displaces, is a befuddled old pussycat who spends his

time appeasing his nagging wife on one hand and squeezing his bronze-haired, pneumatic, cigarette girl/bimbo with the other. The business of business gets short shrift.

The executives of Worldwide Wicket are cheerful toadies who follow their superiors around in lockstep agreeing with everything they say, and stab their peers in the back in hopes of getting ahead. Finch's only moment of flop sweat anxiety comes when he is called upon to come up with an idea. He saves his skin by shanghaiing someone else's notion.

In a just world, Worldwide Wicket would be taken over, stripped of its assets, and sold for cash.



STARRING:

*Faye Dunaway,
William Holden, Peter
Finch, Robert Duvall.*

PRODUCED BY

Howard Gottfried.

WRITTEN BY

Paddy Chayevsky.

DIRECTED BY

Sidney Lumet.

"I have seen the face of God." – Howard Beale

"You may be right." – Arthur Jensen

America post-Vietnam, post-Watergate, post-Patty Hearst, post-revolution. Recession. Limbo. Nowhere. All the ancient idols have revealed their feet of clay. America's moral compass needle swings wildly seeking the lost magnetic north.

Paddy Chayevsky and Sidney Lumet tap into that rotten heart meat and listen to the crazed tachycardia of UBS TV, and of CCA, the conglomerate that owns it. High ratings produce big bucks. Nothing else matters. Faye Dunaway's Diana Christianson, vice president in charge of programming, is the ratings witch, all high cheekbones, elegant tailoring, and stainless steel ambition. Everything she touches turns to a 42 share. She even talks ratings as she squirms to a squeaky

orgasm on top of William Holden's Max Shumacher. Poor Max. He's a dinosaur. He has ethics. Fire him.

The epiphany, secular and holy, is Arthur Jensen's (Ned Beatty) speech to Howard Beale, the Mad Prophet Of the Airwaves. Jensen is the chairman of CCA. And the chilling message: there are no nations. There is no America. There is no democracy. There is only IBM and ITT, AT&T and Du Pont, Union Carbide and Exxon—"one holistic system, one vast, interwoven, interacting, multi-variant, multinational dominion of dollars, petrodollars, multidollars, Reichsmarks, rubles, pounds, and shekels."

Howard Beale's ratings are slipping. What to do? Kill him. Nothing personal. It's a business decision.





"Let's raise the sperm count on this deal." – Gordon Gekko.



STARRING: Michael Douglas, Charlie Sheen, Daryl Hannah, Martin Sheen.

PRODUCED BY
Edward R. Pressman.

WRITTEN BY
Stanley Weiser and
Oliver Stone.

DIRECTED BY
Oliver Stone.

It's the Eighties, baby. The Gipper's in the White House. The bull market is snorting across the financial landscape with blood in its eye pushing the Dow past 2,000. The American businessman is swollen with testosterone, and Gordon Gekko stalks Wall Street like...well, like Ivan Boesky.

Gordon Gekko—"Greed is good. Greed is right. Greed works. Greed will not only save Teldar Paper, [the object of his takeover attempt] but that other malfunctioning corporation called the United States of America."

Business, according to Oliver Stone's Mr. Gekko, is war. Anything goes: hookers, cocaine, espionage and theft. Young Bud Fox, an account executive at a churn-and-burn stock brokerage, is jerked into this orbit. He wants what Gekko wants—

everything, NOW. The hell with Hal Holbrook's calls to reason and morality, "There are no shortcuts. The quick-buck artists come and go." Please, what can this has-been possibly know about Daryl Hannah, and penthouse apartments, and sushi, about owning your own jet, about being "liquid, a player, not some \$400,000 a year Wall Street working stiff"?

But the voice of ethical responsibility continues to sound counterpoint beneath the roar of Gekko's artillery. Build something. Don't just despoil. Produce. Add. In the end, young Bud Fox hears it and is saved. He turns back towards the light, and Gekko is doomed like the other big lizards.

So, the Eighties are gone, thank God, but...it did sure look like Gordon Gekko was having fun.



"Dim sum, Tess. I like it, contributionwise." – Katherine Parker.

"You want to be taken seriously, you need serious hair."

– Tess McGill.

STARRING:
Harrison Ford, Sigourney Weaver, Melanie Griffith.

PRODUCED BY
Doug Wick.

WRITTEN BY
Kevin Wade.

DIRECTED BY
Mike Nichols.

Hollywood's angle on the distaff side of the corporate zoo is skewed through the male lens. Sigourney Weaver's Katherine Parker is the smiling cobra of the Mergers and Acquisitions Department who would suck your bone marrow to make a deal. Her most seductive bedroom line is, "Let's merge." Very scary. Her secretary, Melanie Griffith's Tess McGill, is made of different stuff: sensitive toughness, innocent ambition, Cinderella in great black foundation garments. Harrison Ford's Jack Trainer, Prince Charming of this fable, is everything the corporate woman wants. He is provocatively scarred, romantically ardent, gentlemanly restrained, and capable of working 36-hour days to put together a deal.

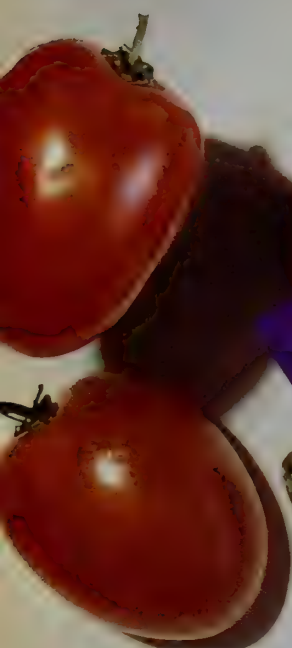
So can a girl with a night school

degree and a Staten Island accent get out of the secretarial pool and into the corner office? Sure. Big Business is very democratic as long as you're ambitious, hard-working, and blonde. First, get access to your boss's Rolodex, calendar, apartment, clothes, perfume, and jewels, and do the Cinderella makeover. Then pitch a merger on the dance floor with the principal in your arms. Rarely do men make this tactic work. And where does a girl get the seminal idea for a deal like this? From *W* and Suzy's column, of course. Gordon Gekko, would you ever have thought of that?

So the Eighties are over, and the Nineties are just getting up to speed. What's in store for business? Who are we and where are we going? Check you local listings for a theater near you. 



Air



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BY AMY LUMET AND JENNY LANDEY

Spring. It's such an exciting time. It's the season when all those lovely yachts get rolled out of the shed and plopped into the water. With this aquatic theme in mind, we felt that a seafood meal would be appropriate. We tried to make it to the market this month, but despite our best efforts to shop for ourselves, we failed.

Overnight mail is truly our best friend. We wanted a sumptuous repast, and we wanted to do as little work as possible.

We began our vernal meal with a piping hot New England clam chowder in delicious sourdough bread. Joe's stone crabs and a serious filet mignon followed—served with Tomato Barquette and Vegetables Provençal (fresh vegetables really beat those nasty cold-weather blahs). Key lime pie closed the deal. Our friends were so impressed.

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CLAM CHOWDER

We know very few men who are satisfied by, or even approve of, two teensy asparagus sticks with a garnish that they're not even sure is safe to eat. And where, *dites-nous*, is it written that soup and bread need to be eaten separately? The Fisherman's Wharf Classic is about as macho an appetizer as you can get. We're talking big food. Imagine a piping hot chowder served in a crusty sourdough bowl. This course makes up for all the times Nanny told you not to play with your food. Now you get to eat your own dish.

The box arrived with four giant

sourdough loaves, which, in the new spirit of European unity, were labeled "Luigi's Sourdough French Bread." Luigi the "Frenchman" sent us these vast brown'n'serve rolls. Nestled with the loaves were the fishes—in a tin called "Jake's World Famous Clam Chowder." Jake is very, very strict. (We love that in a man.) The instructions on the can say that one must "adhere to the following recipe." For each can of chowder, pour in one can of whole milk and one tablespoon of butter. Yum. The routine is as easy as pie—hollow out the loaves and toss them in the oven. Then fill the scooped-

out part with the hot clam chowder.

This dish won kudos from a noted chowder expert friend of ours. His approval even went so far as retrieving the can from the garbage so he could write down the ingredients. The truly great thing about the Fisherman's Wharf Classic is that the bread passes the soggianness test. You can pick the whole thing up like a gourd; three or four helpings of chowder staying neatly ensconced in its sourdough casing. The really fun part, the noted chowder expert said, is descending into the lip of the volcano and swiping the saturated bread inside.

But eating the bowl at the end was the most fun. How Luigi manages to bake a bread that stays soft on the inside and crisp on the outside is not our concern. The only problem is that this course is so good, you have to force yourself to eat only one bowl. After all, this meal has just begun.

SUSAN GREEN'S
CALIFORNIA CUISINE
3501 Taylor Drive, P.O. Box 8505
Ukiah, CA 95482-8505
Phone: 800-753-8558.
Fax: 707-463-5512.

Price: Four 8-oz. loaves and two 15-oz. cans of chowder, \$24.95.
Overnight shipping available.

STONE CRABS

We wanted our Spring Surf and Turf to be different from your usual swordfish-sirloin combo. Besides, considering that swordfish and corn are probably all you'll be served this summer, we knew you would want something different. Being big eaters, we ordered both the medium- and the large-sized claws from Joe's Take-Away—a division of the world-famous Joe's Stone Crab Restaurant established by Joe Weiss in Miami Beach in 1913. This is the cool part: the crabs come cooked and complete with an illustrated diagram, instructions on cracking (nice for those of you whose secretaries have been doing *everything* for you for the past 20 years), and a toll-free hotline for those with urgent crab questions. You can pound out your aggressions by ordering an offi-

cial Joe's Stone Crab Mallet for \$10.

If Bacchus (our *favorite* deity) had to pick his favorite offering from the sea, it would definitely be the stone crab. Each claw is as meaty as a lobster tail. Its consistency is aphrodisiacal, and after drug dealers' landing strips, the claws are South Florida's best-kept secret.

Joe's Take-Away stone crabs are fresh, packed in wet ice and delivered within 24 hours. Due to the perishable nature of seafood, the crabs must be popped in the fridge at once and eaten by the next day at the latest. Our favorite instruction from Joe's was this: "Please note: when biting into the pincer section, there is membrane inside the meat, so treat it as if it were an artichoke."

We served our Surf with Joe's Mustard Sauce (included) and freshly squeezed lemon. Divine.

JOE'S TAKE-AWAY

227 Biscayne Street

Miami Beach, FL 33139

Phone: 800-780-CRAB or 305-673-4611.

Price: Large claws: \$23.95 for a more than generous portion. Medium claws: \$14.95. All orders include sauce. Each box holds up to six orders of either size claw.

Overnight shipping required. \$36 additional charge.

FILET MIGNON

The Turf portion of our entree came from the very macho-sounding Burgers' Smokehouse in California, Missouri. (That's right—Missouri.) What sold us on the tender 1¾-inch-thick filets mignons was the picture of Harry Truman presenting the Grand Championship to the Main Meatman himself, Morris Burger, at the 1955 Missouri State Fair. Besides, if "Give-'em-Hell" Harry liked Burgers' Smokehouse, it's good enough for us—even if he was a Democrat.

The filets were terrific. They're aged for 28 days, flash-frozen and wrapped in hickory-smoked, country-cured bacon.

We, as women, made use of the pamphlet that came with the order.

Burgers' Smokehouse obviously recognizes the fact that not all carnivores were Eagle Scouts—they even tell you how to build a fire. We broiled them under a low to medium flame for 8-10 minutes. They were pink and moist with the crisp bacon sealing in the juice. You, being men, will probably prefer to do what all men seem to inexplicably like. Put the meat on the barbecue and stand around in a group and watch it. Whatever makes you happy.

BURGERS' SMOKEHOUSE

Highway 87 South

California, MO 65018

Phone: 800-624-5426.

Fax: 314-796-3137.

Price: Six 8-oz. 1¾-inch-thick filets mignons, \$81 (includes charge for 2nd day delivery).

Overnight shipping available.

VEGETABLES

Usually vegetables are the punishment course, the due bill for eating an evil meat meal. The vegetable selections from Grace's Marketplace in New York, though, were not only a treat, but were disguised to look meat-like. We ordered Tomato Barquette, which behaved like a chicken as it was to be both stuffed and tossed in the oven; and Vegetables Provençal—slices of potatoes, zucchini, and tomato marinated in extra virgin (does that mean you can't get the bottle open?) olive oil with oregano, salt, pepper, Italian parsley and garlic. The slices resemble an arrangement of cold cuts, so there is nothing that shouts, "I AM A VEGETABLE AND YOU WERE MADE TO EAT ME WHEN YOU WERE YOUNG," at you.

We called Grace to ask her opinion of what would go well with our spring meal, and she was full of ideas. Dealing with Grace's is a joy due to the personalized service (her daughter Dina was a big help), and the catering department sent over a beautifully wrapped package. The Tomato Barquette was *très* simple. The handwritten cooking instructions read: "To cook the tomato, fill

it first with the cream spinach mixture (we know, we know, but trust us, OK?), sprinkle with Parmesan (fresh grated and supplied), and bake at 425 degrees for 5-7 minutes. Serve immediately." And that's the point, isn't it? The Vegetables Provençal are just as good and just as easy. They arrived in their foil dish, alternating slices looking very pretty, which we heated up (also good cold) for ten minutes at 350 degrees.

GRACE'S MARKETPLACE

1237 Third Avenue

New York, NY 10021

Phone: 212-737-0600 (ask for the catering department at x219).

Price: Tomato Barquette: 1 lb, \$7. Vegetables Provençal: 1 lb, \$8.

Overnight shipping available.

KEY LIME PIE

We decided to remain with our Gulf Stream theme for dessert. Such nice things—jets and stone crabs. Luckily, easily, beautifully, the best key lime pie on the East Coast is from, you guessed it—Joe's Take-Away again. It turned out to be the most sublime key lime pie we had ever sampled. Seriously. We were pie high.

The key lime pies, created by owner Jo Ann Bass, are made from a secret, closely guarded recipe. The pie arrived in a Styrofoam cooler, taking only minutes to thaw. The tart lime flavor was the perfect compliment to our Surf and Turf. It's like eating sherbet after a rich meal—you want something tangy and cooling. This, with its graham cracker crust, be it.

JOE'S TAKE-AWAY

227 Biscayne Street

Miami Beach, FL 33139

Phone: 800-780-CRAB or 305-673-4611.

Price: one pie, \$18.

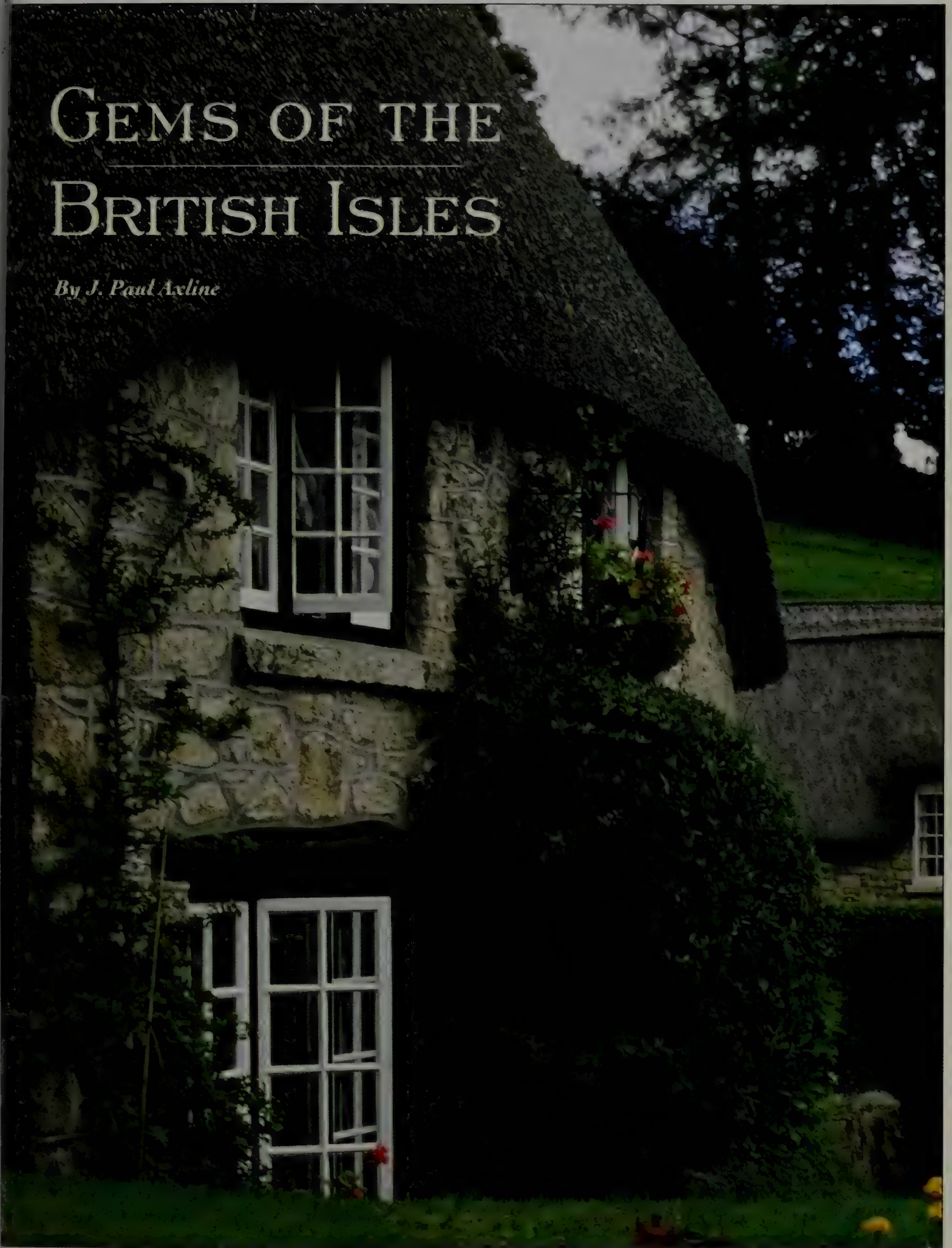
Overnight shipping required. \$36 additional charge. 

AMY LUMET and JENNY LANDEY are New York-based writers.

Special Advertising Feature

GEMS OF THE BRITISH ISLES

By J. Paul Axline



GEMS OF THE BRITISH ISLES

Have you savored the England of today? The Scotland and Ireland of the bountiful British Isles? Or, like so many driven executives, have you let your busy schedule keep you tethered to London on your various business trips? Now you can discover Britain and Ireland...whether you have an extra day, long weekend or week to explore the best of the accommodations and sights that these delightful countries have to offer.

It can happen so easily. With the snap of a sprinter, your British Airways Concorde leaves its starting blocks, races down the runway and soars like a rocket, crossing the sound barrier and quietly slipping into the cruising speed of a bullet. Touchdown in London is a leisurely banquet of fine food and

Freshwater Bay on the Isle of Wight was a favorite retreat of British poet laureate Alfred, Lord Tennyson. The island's chalk downs and sailing waters continue to lure vacationers, as they did Queen Victoria.

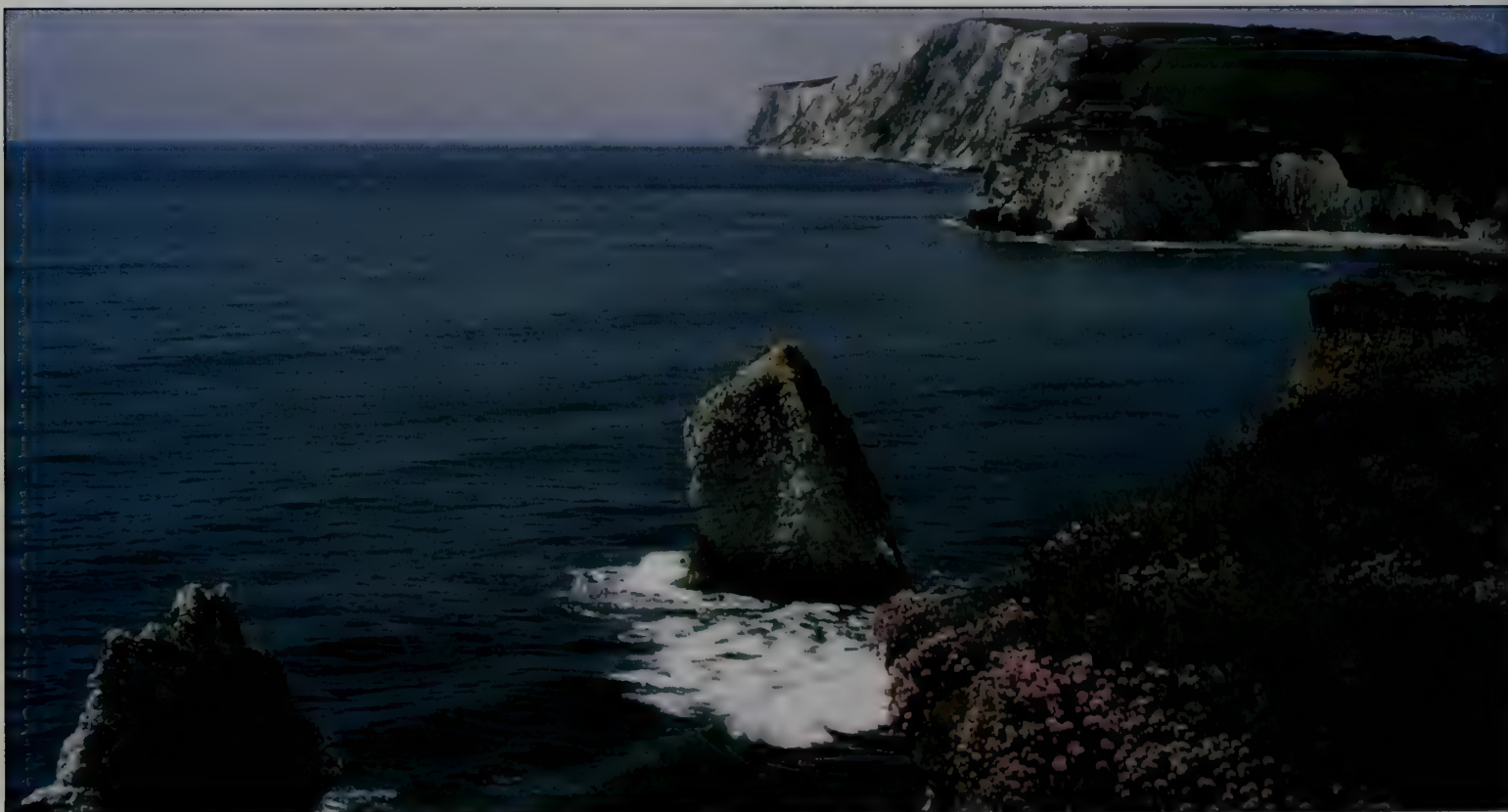
vintage wines away, snooze included. Within minutes of arrival at Heathrow you're driving along in a Jaguar — or chauffeur-driven Rolls — with the incomparable comforts of the English countryside awaiting you, from story-book castles and manor houses to majestic cathedrals and cozy pubs set along serpentine lanes.

British nobility, from the Normans to the Windsors, invented a kind of law of leisure that has been the envy of

America's own upper crust. It's a way of life that the British, with classic understatement, like to call charming. For an American gazing at gothic turrets, gargantuan kitchens, immense hunting preserves and falconry in progress, spectacular might be a more fitting label for Britain's countrified lifestyle.

TOWN AND COUNTRY

"Get out to the countryside — it's as good as anything you'll experience in the world," says Giles Shepard, managing director of The Savoy Group of Hotels and Restaurants. "Spend a little time first in London just enjoying the music, the theater, the sights. Life is on a simmer here. Stay a bit longer on your business trips. Enjoy what's on offer."





You can get into the swing of aristocratic living at any of a collection of luxurious lodgings, located in the smartest quarters of London, from The Berkeley, Claridge's, The Connaught and The Dorchester to the Four Seasons Inn on the Park and The Savoy. All routinely host royalty, celebrities and corporate chieftains from dozens of nations, and in doing so provide pampering unequalled for the price.

What about food, a subject to which most discerning Americans devote three or four pages of restaurant listings in their daily planners? Forget those hoary clichés about English food — you're on a gourmet trip. The fine dining begins even before you arrive in Britain. In the sleeperette comfort of British Airways' first class, where a seat is nearly a bed, getting there is more than half the fun. Aloft, you're practically in a restaurant in the sky, with a tempting choice of appetizers and entrées, all served on Royal Doulton China, and the accompanying wines are the best Bordeaux and Burgundies. It's all a matter of your own preferences — work, watch

a movie, dine, sleep or just read a book — whether you're in First Class or Club World, recently redesigned to provide more comfortable seats, individual videos and personal privacy. And now British Airways can put you right in the middle of the English countryside with nonstops from New York to Birmingham and from both New York and Los Angeles to Manchester.

AN ELEGANT ADVENTURE

For some Americans, too busy to fuss with maps, the British countryside outside London's epicenter seems like territory on a distant planet. Yet the lush countryside is no farther away from the capital than Southampton from New York or Palm Springs from Los Angeles. It is a rare spot, in fact, that is more than a two-hour drive from the waters that surround and shape English life. Some of the choicest morsels are so close at hand that an American would consider them suburban, except that few outskirts in the U.S. can boast a castle, deer park and rolling forests.

Since Charles II's reign, Hampstead Heath — only four miles from central London — has kept the look of a village with its cottages, parks and ponds.

Even Scotland, 400 miles north, is only an hour's flight from London on British Airways shuttles — if you choose not to fly direct from New York. Glasgow, a reborn cultural center of Victorian grandeur, and Edinburgh, a high-stepping city half medieval, half Georgian, are springboards to ducal diversions, from golfing to hunting. Across the Irish Sea is Dublin, masterly and mischievous, a literary gateway to the glories of Ireland.

Your base camps for exploring the countryside are, one and all, award-winning resorts, hotels and inns that share the banner of The Leading Hotels of the World, an imprimatur that instantly signals top quality. With 270 Leading Hotels worldwide — from the Peninsula and Mandarin Oriental Hotels of Asia, the Grand and Palace Hotels of Europe to the Ritz-Carlton and Caesar Park Hotels of the Americas — this exclusive global reservations company "caters to a



The bustle of Edinburgh fades away into the beauty of the Lammermuir Hills as you drive through Lothian country on a sightseeing jaunt.

very select strata of international travelers," as President and Chief Executive Officer Joseph A. Giacomponello puts it.

Though Tiffany — or Rolls — in style, all the hotels have personalities of their own. No two rooms or suites are exactly alike. And the staffs help guests do as they please. To stay at any of The Leading Hotels of the World is to feast on a smörgåsbord of sporting and spa activities as well as savor the atmosphere that makes England so English, Scotland so Scottish and Ireland so unbelievably Irish.

Pack your best smart casual clothes, prepare for a delightful array of activities from golfing to shooting, and loosen your belts and stays for those delicious but healthy repasts of the finest culinary quality that are now as much a part of grand hotels as four-poster beds and antique furnishings. As you think back at day's end, you'll be awestruck by what you did — and how much you enjoyed it — in so short a time.



A TASTE OF THE HISTORIC THAMES VALLEY

When you see Cliveden, very grand and very beautiful, perfectly centered in the distance, its gravel driveway as smooth as a tennis lawn, you brake, shift into neutral and pause. This was the home of English dukes and the Astors.

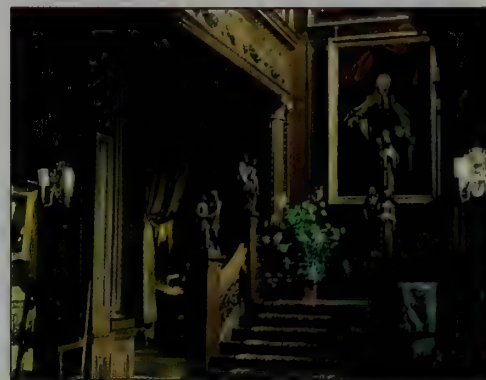
"What we have here is history so rich that you can hardly grasp it all," says Cliveden Director Jeffrey Carey. Long ago, in 1666, George Villiers, the second Duke of Buckingham, bought Cliveden and built a house during the heady days of the Restoration under Charles II.

Fire destroyed Cliveden in 1795, after which the Duke of Sutherland purchased it and engaged the artistic hand of Sir Charles Barry, architect of the Houses of Parliament, to fix everything up. It wasn't long before Queen Victoria became a frequent visitor. "What will happen to our beloved Cliveden?" was her reaction to the news that William Waldorf Astor had bought the 375-acre, beech-covered property.

Today, even with ownership of the stately home handed over to the National Trust, Cliveden abounds in

historic memorabilia. The resort's boats — the *Suzy Ann*, *Claude* and *Liddesdale* (a Thames electric canoe commissioned by Lady Astor) — take guests up and down the river. If you want to picnic on the immense parterre under the Canning Oak (where Prime Minister Canning liked to sit, viewing the Thames), Cliveden's Michelin-starred kitchen will put up a first-rate lunch in a hamper. And as you emerge from the plunge-pool refresher at the spa, guests in gorgeous riding habits appear in the distance on their mounts — an only-in-England scene.

Close by, south of the M4 motorway, is Windsor Castle, a must-see despite the recent fire that thankfully left all of the Royal Family's art collection and belongings untouched. In the same vicinity is Eton College, a character-building training depot for Britain's upper classes through the ages (Henry VI founded it in 1440) — a nice place for comparison shopping if you've always wanted to send your son to St. Mark's, St. Paul's or Groton. If you alight



At Cliveden, once the home of the partying Astors, everything is very grand but congenial.

in London during the week of the Henley Regatta, Cliveden is an estimable rest house after the swirl of libationary activities that accompany the crew races.

"Some executives just finish off their visit to London with a break here," says Carey, "before boarding the Concorde at Heathrow. You know, we're only minutes from departure gates."

Blenheim Palace, located in Woodstock near Oxford and landscaped by Capability Brown, was the 2,700-acre home of John Churchill, the first Duke of Marlborough, and birthplace of Sir Winston Churchill.



COMBING THROUGH THE PICTURESQUE COTSWOLDS

The Broadway many English talk about couldn't be more removed from the glitter of Times Square. It's a mellow, honey-colored village at the northern tip of the Cotswolds, probably England's most endearing region. Blending with this tranquil ambience is The Lygon Arms — you can recognize it by its high-pitched Elizabethan gables and Union Jacks flying proudly. Built as a coaching inn in the 16th century, The Lygon Arms hosted leaders of both sides in England's Civil War.

"There were 33 inns in Broadway at the height of the coaching era in the 1850s," says General Manager Kirk Ritchie, "and then everybody began traveling by train. The Lygon Arms was the most important of the remaining inns. At the turn of the century the Russell family purchased it. And guess who was one of the first guests? Henry Ford."

For guests with ambitious sight-seeing goals, there's a helipad for quick day trips to such notable places as Chatsworth, the baroque palace often compared to Versailles in its sweep and grandeur. Most travelers will settle for a look around Chipping Campden, a jewel of the Cotswolds only minutes from The Lygon Arms, where the locals still roast a pig ("suitable for 150 sandwiches") over a wood fire in the town center on celebratory days, and then continue on to Stow on the Wold and numerous other villages. Thatched-roof houses, of course, are the area's signature — and a testimonial to the region's rebellion against the encroachments of modern industry. Experiencing the bucolic serenity just from a car is madness — you should switch gears to the English walking mode, if only to shop. "The Cotswolds are a mecca for antique lovers," notes Ritchie.



An Elizabethan coaching inn, The Lygon Arms is a cozy cocoon of timbered rooms with an atrium pool and spa. Golfing, hot-air ballooning and shooting are available.

Within Broadway's orbit are other classics you would hate to miss. Just 16 miles away is Stratford-upon-Avon, the holy grail for Shakespeare aficionados. And it's only a bit farther to Oxford University, which has produced generations of prime ministers, writers, scholars — and gentlemen. Because of a maze of one-way streets, see the spired city on foot, heading for High and Cornmarket Streets, then turn south to explore Pembroke College and Christ Church College.

Do you sometimes shake your head in disbelief when you hear descriptions of how people really lived in castles? Try Warwick, near Stratford, where tableaux in one room after another propel you backward in time — with torture devices, acceptable in their day, on display in the dungeon.

It makes the Cotswolds seem inordinately civilized.



Look around Oxford, England's oldest university, and you'll come across this Venetian-looking "Bridge of Sighs" that spans New College Lane.



*If this is all you've seen of Britain,
you haven't really seen Britain at all.*



Going to Britain and only seeing London is like going to the U.S. and only seeing New York. As fascinating as London is, with its famous museums, galleries, and monuments, there is a whole Great Britain beyond, just waiting for you to explore.

Hampton Court, one of Henry VIII's favorite palaces, is just a train ride away, as is one of the Georgians' favorite spas, Bath. Or you could hire a car and roam the rolling countryside, stopping to wander through storybook villages and stately homes. Distances are not great, but the rewards certainly are.

Picture yourself at ancient Stonehenge or in Shakespeare's Stratford-upon-Avon. Think of the mighty castles of Wales, the mysterious lochs (and the golf) of Scotland. Perhaps you'd like to explore your own ancestral roots or visit the birthplace of a favorite author or poet. See for yourself the green English hills that inspired Wordsworth, the Scottish crags that stirred Burns. There is so much to do and see, you'll want someone to share it with. So take your wife, your husband, a friend.

It's a perfect time to go, too. The dollar is up, and costs are down. So you can actually do more, and spend less doing it.

For some good ideas to get you started, call or send for your Business & Pleasure Travel Kit, free from the British Tourist Authority. You'll find useful suggestions for day trips out of London, shopping values, plus a calendar of events for 1993 and much more. Then, plan to turn your next London trip into a real British experience.



For your free Business & Pleasure Travel Kit, call toll-free: 1-800-492-4653. Or write: **British Tourist Authority**, P.O. Box 41, Cranbury, NJ 08512. BTA has information offices in Atlanta, Chicago, Los Angeles, and New York.

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*In the 18th century,
a chap from London
named Beau Nash
put Bath on the
map as a kind
of unlazy susan of
English social life.*



Legend has it that in 500 B.C. Prince Bladud used local mud to cure an ailment, but it took the Romans to create the Great Bath (fed with 116° F hot water from a spring) that lures tourists.

THE SPA THAT MADE BATH

Descending from the surrounding hills into Bath, you come upon The Bath Spa Hotel, a Greek Revival mansion with a picture-window view of one of England's most aristocratic and ancient cities. The Bath Spa Hotel is set in eight acres of its own land in the heart of the city, and offers a mixture of period grace and modern amenities.

Very early on, the Romans, no fools as pleasure seekers, spotted Bath's bounteous assets, a bubbling hot mineral spring foremost among them. With their engineering talents, they constructed a town with baths, a temple and a theater (or gymnasium) centering on those healing and sensual waters.

In the 18th century, a chap from London named Richard ("Beau") Nash picked up where the Romans left off and put Bath on the map as a kind of unlazy susan of English social life. Appointed Master of Ceremonies, he became a social arbiter in town, organizing musicales and bashes, promoting gambling, monitoring the tariffs on sedan chairs and having a ball as Bath's leading roué. While he wasn't quite Mr. Bath, he set a pace that British society evidently enjoyed.

Where there's money, talent is not far behind, and the best of architects, painters and writers flocked to the city on the Avon River (not the same one as

in Stratford). The results, as seen today, are nothing short of Georgian greatness. Among the memorable showcases in town are the Royal Crescent, as symmetrical as a row of 30 terrace houses could be, and nearby Circus, a tight circle of identical houses.

Bath's current pride is its step-by-step reconstruction of what is now called the Roman Bath and Museum, which lay buried below street level for 1,900 years. Archaeologists have taken large fragments of Doric, Ionic and Corinthian columns and other pieces of the former baths and recreated the spa as it was during Roman occupation when the goddess Sulis Minerva, repeatedly



Sprays of flowers, fluffed-up pillows and colorful chintz enliven the Bath Spa Hotel, a Greek Revival mansion built by an English colonel in the 1830s.

depicted in stone and gilt-bronze, held sway. Adorning some of the walls of the balcony overlooking the magical pool are photo blowups of English ladies and dandies having tea in the 1920s.

After a tour of the restored ruins, it's off to the exquisitely proportioned, white Pump Room for coffee or tea, with a string quartet to help turn the clock back to the 18th century. The Palladian-style room is an architectural tour de force, with fluted pilasters, a coved ceiling, Chippendale chairs and a glass chandelier. Literary buffs will

remember it as the place where Catherine meets Mr. Tilney in Jane Austen's *Northanger Abbey*.

Along with its heritage, Bath proves that England is indeed a nation of super shopkeepers. Some are branches of London luminaries, others local inspirations, and the glory is not necessarily the prices but the uniqueness of what's on offer. At Crooks you can find every regimental and school tie imaginable, from Royal Artillery to Oxford and Cambridge, and you can buy Bath buns at Sally Lunn's, where there's a Kitchen Museum.

Dining well, in fact, is a feature of the Bath Spa Hotel. "We've had an explosion of wonderful British cooking," says General Manager Robin Sheppard. In the Vellore, the hotel's triumphal dining room, you can work your way through such dishes as Cornish fish in a saffron risotto or stuffed pig trotter with sweet garlic sauce.

As a side dish to your Bath Spa stay, drive to Bristol and on into Wales — it takes only 45 minutes. You're also about the same distance from

Stonehenge, the mysterious Druid ring of stones that stands in stark profile on the wind-swept plain of Salisbury. When the lonely site gets crowded, as it does in the summer, retreat to nearby Salisbury Cathedral, memorialized in Constable's oil masterpiece.

Just north of Bath is Castle Combe, a stone-and-gable hamlet so picturesque that the British Tourist Authority once chose it as the village of the year to typify England. Sir John Fastolf, who owned the local castle, was, some say, the model for Shakespeare's Falstaff, in girth if not gusto.

But don't forget visiting an odd attraction in Bath itself: the American Museum. Housed in Claverton Manor just outside town and presided over by the U.S. Ambassador, it provides a portrait of what the British think about when they think of America — with culture and crafts from the 17th to 19th century on display.

Salisbury Cathedral, built between 1220 and 1265, boasts a spectacular 404-foot spire, England's tallest. Close by are Stonehenge's Druid monoliths.



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FEUDAL SECRETS OF THE NEW FOREST

In the early 19th century, Napoleon's plans to invade England ran up against the redoubtable "wooden walls" of Lord Nelson's fleet — ships fashioned from the oak groves and other trees in the enchanting New Forest near the English Channel.

Today, hugging the laid-back landscape on the Hampshire forest's fringe is Chewton Glen Hotel. The epitome of an English manor house, it looks so clubby and comfortable that you want to package it and ship it home.

Launched and matured by the Skan family, this attractive red-brick mansion is a haven of peace and quiet. Swing open the French doors in your second-floor guest room and spread out before you is a sweep of grass that melds into a beautiful nine-hole golf course. Chewton Glen has both indoor and outdoor tennis courts, and it boasts a two-year-old spa that includes soothing hydrotherapy.

"Chewton Glen's bright trimmings, plump cushions, skirted tables and coordinated fabrics are the hallmark of this fine house," says Managing Director Robin Hutson. But it's not all skin-deep aesthetics. The staff is perhaps among the most charming and



friendly ever encountered. There is a warmth of welcome at Chewton Glen that immediately relaxes travelers.

The 70-acre resort is virtually an island of red brickwork and golf greens in a sea of thick woods and soft heather that makes up the 92,000-acre New Forest. The Normans landed there in 1066, and William the Conqueror, in command, made the uncultivated area a royal forest and hunting preserve — that's where the "New" comes from.

To this day, ponies and deer roam the protected land, otters fish its streams, foresters graze animals and verderers police the property. Drive along the forest's narrow roads and stop in a remote hamlet such as Fritham, where you can have a pint of bitter at the Royal Oak. One historic spot is the Rufus Stone, marking where an arrow brought down King William Rufus, son of the Conqueror. Was it an accident — or murder? No one is sure. At Beaulieu (pronounced "Bewley"), on the edge of the forest, tour Palace House,

Go antique hunting in the quaint port of Lymington on the edge of the 92,000-acre New Forest, where William the Conqueror landed in 1066.

home of Lord Montagu. Auto buffs won't want to miss the National Motor Museum, located on the estate grounds.

Plenty of Chewton Glen guests take off for Broadlands, the imposing, Palladian country house of the late Lord Mountbatten ("This place all together pleases me above any other I know," said Lord Palmerston in 1736) on the banks of the River Test, or tour Exbury Gardens, 200 acres of woodland garden created by Lionel de Rothschild — the rhododendrons, azaleas and magnolias make a spectacular sight in the springtime.

One Houston couple who annually visits the hotel heads out with chauffeur and car day after day for some posh pub crawling — and shopping. Try the Cartwheel at Whitsbury. They like it a lot.



At cozy Chewton Glen Hotel, guests can play golf and tennis — and dine in a Michelin-starred restaurant, where award-winning sommelier Gerard Basset specializes in lucid explanations of vintage wines.

SCOTLAND'S LINKS WITH ITS RICH PAST

As far back as the 15th century, golf was so popular with the Scots that James II, at war with England, declared golf illegal because it was interfering with his citizen army's archery practice. And so it is fitting that Turnberry Hotel, Golf Courses and Spa, a distinguished former railroad hotel, focuses on its fairways, which border the Irish Sea. Many of Turnberry's rooms provide a panorama of the famed Ailsa course, named after Ailsa Craig, the huge, humpback whale of an island 12 miles offshore. On a clear day the Isle of Arran, easily accessible by boat, can be seen on the northern horizon.

Although the trains that brought guests and their trunks to Turnberry's front door for a month's stay no longer steam down the track, a chauffeured car transports you from Glasgow's remodeled airport through roller-coaster hills with sheep pastures to a resort that is as charming as it is majestic.

What has given Turnberry a streamlined appearance — without its losing Old World graciousness — is an infusion of money. This has led to the construction of a state-of-the-golf-game clubhouse just in time for the 1994 British Open.

Amidst modernization, the aged-in-oak atmosphere prevails. In a glass wall case displaying old clubs, you'll find the Rut Niblick, circa 1860, designed for chip shots out of carriage ruts. In the cocktail lounge, commonly referred to as Tommy's Bar (after the bartender, a 30-year Turnberry veteran), malt whiskies flow, to the everlasting joy of visiting Americans.

Acknowledging that the "golf widow" isn't a figment of a jokester's imagination, the hotel offers a superb spa with a full array of activities, from fitness assessment to workouts, massages and therapies. Says General Manager Christopher J. Rouse, noting



The showcase at Turnberry Hotel, Golf Courses and Spa is the tricky, delightful Ailsa course that hugs the sea.

Turnberry's magnificent glass-fronted pool, "Watching the sheep nibble away outside while you swim is something you're not going to get in New York."

The resort's location near 37 castles also makes it ideal for sightseeing. The nearest castle is Culzean (pronounced Cullane), which dates from 1777 and was designed by the Scottish architect Robert Adam. Culzean's guest flat was presented to General Eisenhower for his lifetime use. Glasgow, captivating in its new Victorian attire, can make a pleasant day's excursion, if only to see the stunning Burrell Collection of 8,000 items — rich tapestries, castle rooms, Degas paintings, Egyptian artifacts — that shipping magnate William Burrell spent a lifetime assembling. On your return, stop off at the Robert Burns Cottage, birthplace of Scotland's most famous poet, where your driver will whisper with a twinkle, "He was fond of the lassies."



"From scenes like these, old Scotia's grandeur springs," wrote poet Robert Burns, describing the gorgeous countryside where sheep outnumber Scots.



SHOOTING BIRDIES AND SIPPING MALTS

The Gleneagles Hotel draws hosannas from American regulars. Add to its famous King's and Queen's courses the new over-hill, over-dale Monarch's course designed by Jack Nicklaus — pro tour stars who have played it like the front nine and the 18th hole the most — and Gleneagles keeps the applause going.

The former railroad hotel is a well-proportioned palace in its own right, with a circular garden before the grand entrance and a wall of trees and shrubs surrounding it to complete the unity.

Besides golf, your dance card includes a triumvirate of classic sports: shooting, falconry and riding. Don't let your amateur sensibilities inhibit your indulging in all three.

Masterminding the Gleneagles Jackie Stewart Shooting School is race

car driver Jackie Stewart. Your instructor might be Richard Davies-Cooke, who says, "We look after 12,000 visitors a year. Some 85% have never seen a shotgun in their life, and 35% are ladies."

"Falconry was new last year," says General Manager Peter J. Lederer. "You read about it, you hear about it, and now get a chance to try it."

Gleneagles' equestrian stables, new since 1988 and managed by Captain Mark Phillips, Princess Anne's former husband, are as polished as a silver quaich. "It's the best of its type in Europe," says Lederer. "You can ride the horses, drive them with a carriage, ride sidesaddle and do falconry from horseback."

If you find the prospect of playing the new Monarch's course daunting,

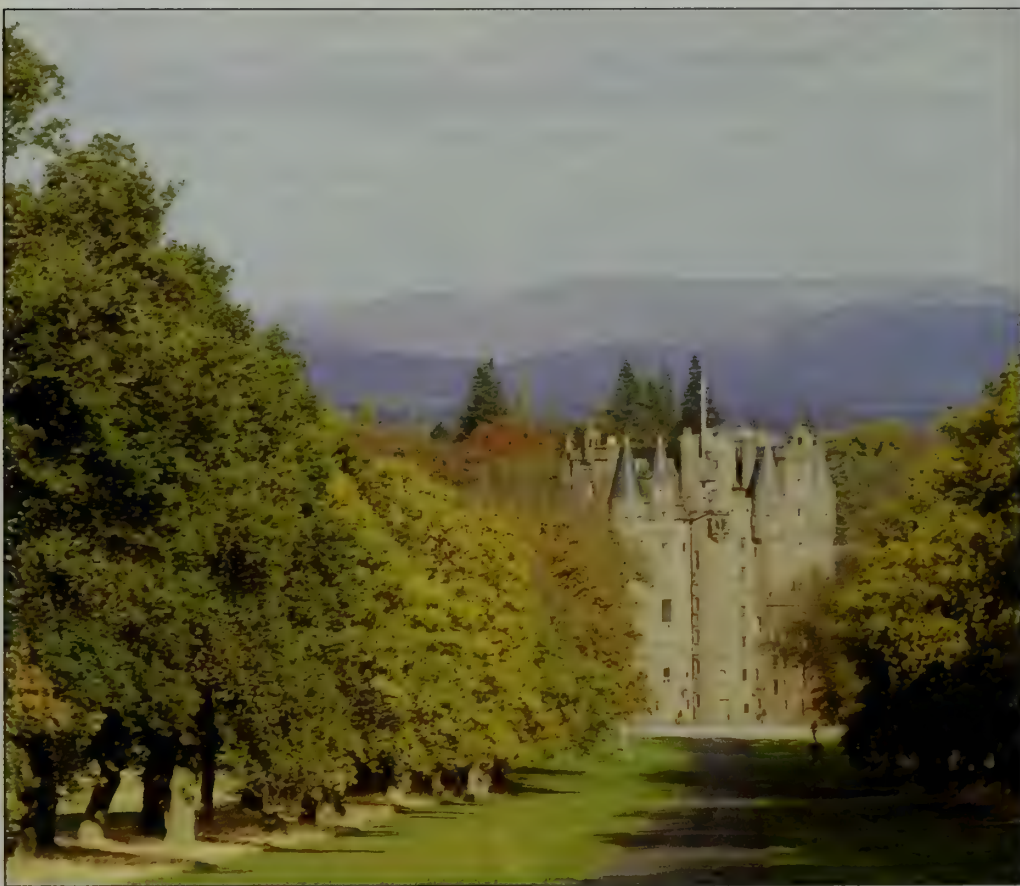


Gleneagles is world-famous for its golf courses and its shooting, falconry and riding schools. It's also a springboard for touring Scotland.

rest easy: Gleneagles has color-coded the tees for five different levels of golf, from championship to high handicap. And the Golden Bear's design includes a golf-cart track around the links, unusual for a British course.

The resort is also a neat hub for touring Scotland. You can visit top distilleries — Royal Lochnagar and Blair Athol (which produces malts for Bell's and Dewar's) are two of the best. One of the stately Scottish homes worth seeing is Scone Palace outside Perth, the ancient capital of Scotland. It's a Victoria-slept-there landmark with celebrated gardens and remarkable antiques. Another magnet is Blair Castle, home of the Duke of Atholl, known for his private, uniformed army that serves as one more reminder that Scottish nationalism and individualism are far from dead. And if your heart is set on Loch Lomond, figure on an hour's drive, preferably with a guide to prattle about local history.

Tour Glamis, the childhood home of the present Queen Mother, complete with towers, turrets and a ghost (Lady Glamis, burned as a witch).



EDINBURGH'S HIGHLAND SPIRITS

Few cities worldwide are as eccentric and elegant as Edinburgh. It resembles nothing except itself, crowned by its brooding castle, crammed with history, carpeted by flowers in the warmer months and captivating to visitors. With a small and manageable center, it's a walking city that gives pause at every turn. Measured against its diminutive downtown scale, landmarks such as the Sir Walter Scott Monument on Princes Street, Edinburgh's Fifth Avenue, seem outsized.

Among the standouts is The Caledonian Hotel, an imposing structure of red sandstone tucked below the castle. It's as prominent and handsome a fixture in Edinburgh's center as The Plaza is in New York. A tour of the hotel, affectionately known as "the Caley," is a stroll through 20th century Scottish social history — from its glittering debut in 1903 as the newest bauble of the Caledonian Railway Company to the entrances and exits of British royalty and the stayovers of artists performing at the annual summer music festival.

"The Caledonian is evocative of Edinburgh's cultural heritage as well as its commerce," says General Manager David Clarke.

Today, basking in its 90th year as the grande dame of Edinburgh hotels, the Caley serves French and Scottish cuisine in the classical Pompadour Restaurant. It was just voted the "Best in Scotland," and lawyers and bankers from nearby Charlotte Square fill its tables. Carriages, the less formal restaurant, is located in the very space where trains once discharged passengers.

With central Edinburgh only a mile square, you have an intriguing city at your feet. After seeing the castle, walk the cobblestone Royal Mile ("the history of Scotland in some 10 blocks") as it slopes down to its eastern terminus, Holyroodhouse, where Queen Elizabeth stays when she is in Edinburgh. Twisting downhill from the castle, on Grassmere Street, are the city's best avant-garde and antique shops alongside French, Italian and other attractive bistros.



The opulent Caledonian Hotel is aglitter during the colorful, cultural Edinburgh International Festival.

Investigating the Scotland beyond Edinburgh is no problem. Target the aging, ribbed Firth of Forth Bridge, Earls Hall Castle, the hunting ground of the ubiquitous Mary Queen of Scots, and, if your travel dates coincide, the Highland Games with the clans in full regalia. For a surprise trip in the other direction — south of the Scottish-English border and near Emperor Hadrian's Wall — head for Floors Castle, home of the Duke of Roxburghe.

Ancient Edinburgh Castle, resplendent during the Military Tattoo in August, viewed from The Caledonian Hotel.



THE ENGAGING DIVERSIONS OF DUBLIN

For years, smart executives in search of a different vacation have chosen to sneak a peak at Ireland. It's as close to the sea and as chockablock with castles as Britain, with a somewhat lower tab for the traveler, and it has a fascinating mind and mode of its own.

A good place to catch the Irish spirit is Dublin, a city of modest but comely proportions with a poet and pub around nearly every corner and a jauntiness few other metropolises can match. Both the post office and Gaelic-speaking Irish call it Baile Atha Cliath (Town of the Ford of the Hurdles), but you can call it Dublin. It lies on Dublin Bay at the mouth of the River Liffey in a beautiful setting of mountains and sea. The 18th century squares and terraces, Georgian architecture and historic buildings facing on public greens combine to give the city an air of leisurely living.

Most of Dublin's best hostleries are on the south side of the Liffey, and two of the most princely establishments are The Westbury Hotel on Grafton Street, Dublin's most fashionable and famous thoroughfare, and The Berkeley



Statesmen, corporate chieftains and sportsmen put up at The Berkeley Court on Dublin's Embassy Row.

Court in the affluent suburb of Ballsbridge, locally known as the "embassy heartland."

"We have 32 golf clubs within easy range of the hotel," says Tony Rooney, The Berkeley's general manager. "There's no problem getting on a tee — two of the best are Royal Dublin and Portmarnock."

But horses take precedence over golf in a Dubliner's set of priorities. "When you like racing, you become a part of it," says Rooney. "We have top trainers coming to the hotel all the

time," noting that the Budweiser Derby is a main feature of the "flat season." But the biggest social event of the year is Horse Show Week in August, held at the Royal Dublin Society's splendid grounds only minutes from The Berkeley Court.

Putting your money on a stay at The Berkeley Court is a sure bet. Something akin to a sovereign state of its own, the hotel has hosted celebrities and corporate tycoons with aplomb, installing them in a dressed-to-the-nines penthouse the size of 23 of the hotel's bedrooms. In opulence, it's like going to the Metropolitan Opera House — with the ceiling lowered.

At the downtown Westbury, four-poster beds with headboards covered with pretty flower patterns soften guest rooms. And bathrooms have a surprising twist: while shaving or making up, you can glance at Irish TV on a screen ingeniously imbedded in the mirrored walls. Room service or downstairs dining? Swiss-trained executive chef Paddy Brady is as adept at creating dainty sandwiches and delicate pastries as he is at preparing fresh fish and traditional meats.

"If you're short on time, you can shop for Irish and European goods right in our own mall," says Westbury General Manager William J. Kingston. For incredibly alluring Irish sweaters, scarfs and accessories, head for Cloe on Kildare Street near the National Museum of Ireland.

Begin exploring the city at College Green — only minutes from the Westbury — and there you'll find Trinity College, all 40 acres of it, founded in 1592 by Queen Elizabeth



Irish Tourist Board

One way to enjoy the emerald scenery in Wicklow, south of Dublin, is to go touring on horseback.



and famous for its distinguished graduates (Edmund Burke, Oliver Goldsmith) and art treasures (the 8th century *Book of Kells*). Three other attention-getters: the 13th century Dublin Castle (with state apartments); St. Patrick's Cathedral, where Dean Swift, better known as Jonathan Swift (*Gulliver's Travels*, *A Modest Proposal*), is buried; and Merrion Square, with its many handsome mansions where literary and political figures (William Butler Yeats, Oscar Wilde, Daniel O'Connell) once lived.

The city, of course, has a host of top places to drink with good conversation as a chaser. "Dublin is the most instantly talkative city in Europe," as V. S. Pritchett once commented.

If you want to make the rounds of a few pubs, here are some suggestions with the brand of patron you'll meet: O'Donoghoe's (ballad singers) and O'Neill's (Irish-language writers) on Merrion Row, the Pearl Bar (newspapermen) and the Palace (artists) on Fleet Street and Davy Byrne's (dilettantes — and the pub that Joyce immortalized in *Ulysses*, though only the name is the same) and the Bailey (watering hole for intellectuals) on Duke Street.

Ireland's specialty, Irish coffee, is wonderfully good — like Ireland itself.



Tucked into Dublin's lively theater and fashion district is The Westbury, where suites are ultra-luxurious.

LONDON TIMES

From Dublin it's only an hour's flight to London — and then no more than 45 minutes by limousine to the West End, where most upscale Americans stay. When you're there, you feel seven feet tall as you slip into the dressy, etiquette-conscious social pattern of the English. There's a throb of power and awareness of status as you take a second look in the mirror to be sure your tie is centered or your earrings are hanging correctly. You feel on stage, but would you ever have it otherwise — in London? It is Wall Street, Washington and Beverly Hills all rolled into one — with Savile Row suiting.

PARK LANE IS FOR SYBARITES

The Park Avenue of London is Park Lane, one of the world's most expensive pieces of real estate (highly valued because of its alluring views of Hyde Park, originally a hunting forest owned by Henry VIII). Among the top-of-the-line hotels along its course is The Dorchester, a palace that magically caters to CEOs, Hollywood stars and heads of state with equal grace.

Built in 1931, The Dorchester recently underwent a face-lift, emerging with the youthful good looks of a deluxe hotel built for the 1990s. "We wanted to create a friendly but professional atmosphere," says Director and General Manager Ricci Obertelli, who made sure the surgery was successful by staying overnight in virtually every one of the redone suites and rooms.

Fine food continues to be a Dorchester strength. The venerable Grill, practically a British institution, serves roast beef and Yorkshire pudding off a silver trolley — with lemon raspberry syllabub or passion fruit charlotte for the finale. The famous Terrace, a delight for evening dining, features light French fare with music for dancing between courses. And the new, chic



The Dorchester's Front Hall greets guests with warmth and elegance.

Oriental, already *Michelin*-starred, offers succulent Cantonese dishes.

If slimming rather than amplifying your figure is high on your wish list, you can disappear into the treatment facilities in The Dorchester's new sybaritic spa.

Slipping out to London's suburbs to see the sights is just as easy. You can head south to Chartwell (in Westerham), Sir Winston and Lady Churchill's country home filled with mementos and graced with a yellow-rose garden.

Finish your sojourn back at the Dorchester's well-stocked Bar — with a glass of fine port.

BROWSING IN MAYFAIR'S SUPER SHOPS

Overlooking Hyde Park, The Four Seasons Inn on the Park is a relative newcomer to London's five-star hotel map. But in just 23 years — 17 of them under the tutelage of Regional Vice-President and General Manager Ramón Pajares — The Four Seasons Inn on the Park has made its mark as a hotel that combines modern structure with an interior design and service steeped in tradition. The Pine Room, for example, used for private receptions, features crafted pine from the aristocratic Hamilton family's house that originally stood on this site.

Howard Hughes sought solitude at the hotel for 11 months in the early 1970s, and, since that time, politicians and celebrities have continued to enjoy the discretion and service synonymous



Elegant and beautiful surroundings with close attention to detail characterize The Four Seasons Inn on the Park.

with The Four Seasons Inn on the Park.

"However beautiful a building and its decor, however extensive its range of services and amenities, this is insufficient without staff dedicated to delivering a superior level of service with the closest attention to detail," says Pajares. "It is the

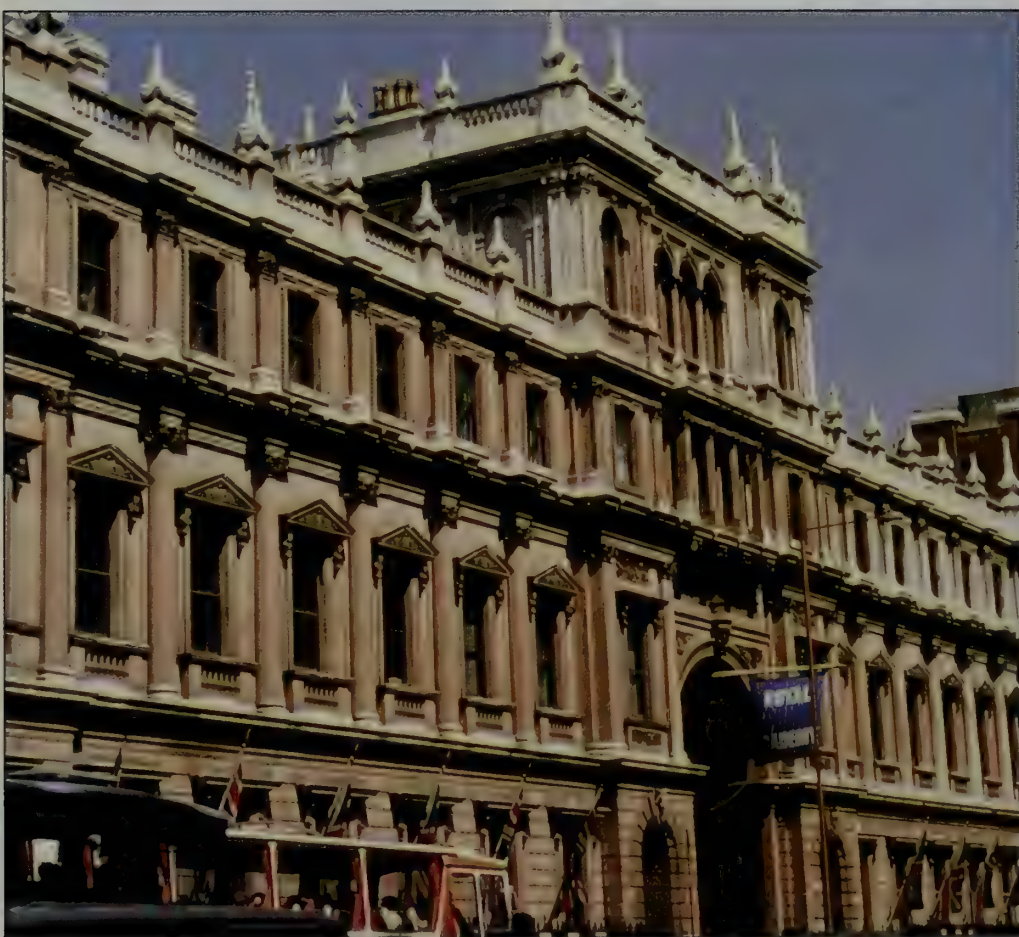
people who work here who contribute so strongly to the character of our hotel, and we select our staff extremely carefully. We can teach procedures, but we can't teach attitude. Efficiency and charm must be combined."

The hotel enjoys a pivotal position for sightseeing and shopping. Around the corner are the ostentatious and outré pleasures of Mayfair, from grandiose Grosvenor Square, with the Saarinen-designed American Embassy on one flank, to the diminutive pubs and shops of Shepherd Street that lead into infamous Curzon Street. Walk a few more blocks, and you can visit the art galleries and auction houses along New and Old Bond Street, wander through the 19th century Burlington Arcade (with uniformed beadle on duty) or have a Savile Row tailor measure you.

Around Piccadilly Circus, you can shop Lillywhites for sportswear, Hatchards for books and Fortnum & Mason (provisioner to the royal household) for foods. Or dodge south on St. James's Street to Berry Brothers for fabulous port and Lobb for the best in shoes. Make another turn east into Jermyn Street for Turnbull & Asser's men's shirts and the Stiltons of cheesemonger Paxton & Whitfield.

Surprised at what you found in your shopping expedition? Value for your money is the rage of the 1990s, but it's hardly a new concept for the British. These days you may even hear an Englishman mention The Walpole Committee, recently organized to send the message that the British are incomparable craftsmen and their pedigreed stores are "finds."

London's summer social calendar includes the art exhibit at the imposing Royal Academy, whose treasures include works by Turner, Reynolds and Gainsborough and Michelangelo's *Madonna and Child*.



SEEING A SMASH HIT IN THE WEST END



Take a cab across the Thames to the George Inn, a half-timbered haven for Shakespearean actors in Elizabethan times. It may be London's most bewitching pub.

Round the clock The Savoy is on stage, its appetite for acting whetted long ago by the man who founded it, theater and Gilbert & Sullivan impresario Richard D'Oyly Carte. Midway between West End theaters and the City, London's financial district, the grand hotel cleverly merges sophistication and show biz, from the woody lobby that looks centuries old to the swish spa nearing completion above the Savoy Theater.

Launched in 1889 with César Ritz at the helm, The Savoy has always enjoyed making noise in social circles. "It's a magical place full of naughtiness," says Director and General Manager Herbert Striessnig. "The walls talk. It's glamorous — filled with business and life. It has an uncanny knack of never letting you go when you stay there."

Maybe so, but The Savoy is a natural launching pad for seeing a lot of London. Only blocks away is Covent Garden, awash with Greenwich Village-type shops, museums both older (Transport) and newer (Theater) and bistros from Indian to Italian.

The Houses of Parliament and Big Ben are only the beginning of your journey through the joys of London, where smart shops and chic bistros abound.

If you're aching for the London theater — very good and very cheap — you're only a five-minute taxi ride from *The Importance of Being Earnest*, *Kiss of the Spider Woman* and *Cyrano de Bergerac*, all now playing.

Going east from The Savoy, you'll encounter Simpson's-in-the-Strand, home of traditional English cooking. You can also sample 18th century life as it was when social commentator Samuel Johnson and his sidekick, James Boswell, were holding forth in Ye Olde Cheshire Cheese. If you have silver bargains in mind, visit the nearby underground arcade of more than 30 shops in Chancery Lane.

A pub truly out of the past? Take a cab across the Thames to the George Inn, a half-timbered haven for Shakespearean actors in Elizabethan times — beloved for its old bar where Dickens reputedly made notes for *Little Dorrit*. It may well be London's most bewitching pub.



It's life in the faster lane — with show biz touches — at The Savoy, now completing a new state-of-the-art spa and a painstaking redo of its namesake theater.

FROM HARRODS TO HAMPTON COURT — ALL IN A DAY

"The wonderful windows, displays, merchandise — American stores still have something to learn," said a veteran New York shopper recently after visiting Harrods, the Knightsbridge landmark. For like-minded shoppers, staying at The Berkeley in Belgravia, the elite enclave that is steps away from Harrods, is akin to an archaeologist putting up at a hotel next to the British Museum. It is heaven on London's earth.

A remake of the famous hotel that once graced the Piccadilly area, the new, marble-sheathed Berkeley has just

Beside the Thames sits Hampton Court, the Tudor palace that Cardinal Wolsey built and then gave to Henry VIII. Five of Henry VIII's queens lived there.

reached full maturity at age 21 with all the twittering and fluttering of a debutante at a coming-out party. The hotel's old-money look, complete with original paneling by Sir Edwin Lutyens, belies the younger heart of Director and General Manager Stefano Sebastiani, a dashing figure who does motor racing in his few spare moments. He has added plenty of high-performance fuel to The Berkeley itself.

Check-in at The Berkeley is so discreet that you might think you were visiting a private home. No front desk, no cashier's cage, no pileup of luggage — it is all so personalized that the fine furniture in your room seems to have your name on it. To add pizzazz to the polish, you can book one of the conser-



Need pampering? The conservatory-style Wellington Suite at The Berkeley brings the outdoors indoors — with a sauna for freshening up.

vatory-style suites, which include a sauna and planters.

"We hope you can relax in London and see our countryside," says Sebastiani. "We can have a chauffeur-



driven Daimler, Rolls Royce or Mercedes at our front door in minutes to escort you on a guided tour of Windsor, Hampton Court and other temptations of the Thames Valley." If you have a craving for golf or tennis, you can play the links at the Wentworth Golf Club, home to the World Matchplay Championship, in Surrey or tennis at the exclusive Vanderbilt Tennis Club in West London free of charge. On your return, drop in at the



*Besides Harrods,
explore elegant
specialty shops.*

Grenadier, an 1812 pub only steps away from the hotel.

Besides Harrods, you can explore many elegant specialty shops in The Berkeley's neighborhood, including MP Levene and Wm. Hawkes & Son. If you're "shopped out," take the elevator to The Berkeley's health club. Swim and tan around the Greco-Roman pool — the only rooftop spa in the city with a sliding roof that closes on cooler days.

A STATELY LONDON HOME

The setting is a picturesque part of London's exclusive Mayfair. A stroll along Mount Street, with its beautiful antique shops, through the adjoining colorful garden, brings you to the glittering Connaught and into a world of gentleness and a unique atmosphere of coziness, warmth and tranquility. An impressive mahogany staircase makes a central feature, within a homey entrance Hall.

Over the last ten years, £15 million has been spent on renovations, all carried out with the utmost care to preserve the character and ambience of the past and to modernize facilities to the latest standard. The most recent project, of £2.5 million, has been carried out for the full renovation of the kitchens and basement areas, including the implementation of the latest technology in refrigeration and food handling.

There is a wonderful dignified tranquility here — a simplicity, a rapport between the staff and the guests. "There is no mystery," says Managing Director and General Manager, Paolo Zago. The Connaught is small and run like a private home, providing good service and good food — the fundamental meaning of 'innkeeping' — with a proprietary concern for getting even the minutiae just right. It has forged its own style and is

not in competition with anyone: "We don't select our guests — they select for themselves," and The Connaught enjoys the privilege of 85% return visitors. Spring and fall are particularly exciting months but The Connaught, at Christmas, is an oasis of serenity.

Guests like the Hotel so much that they will book a year ahead to ensure a room during Ascot and Wimbledon. There is a careful choice in furnishings and accessories for the bedrooms and suites, delicate colors in the luxurious chintzes, antique furniture and completely renewed bathrooms. Cool, crisp, pure linen sheets ensure a soothing and comfortable night's sleep, and the luxury of exceptionally large, fluffy bath towels and bathrobes adds to the feeling of well-being.

The Connaught has two dining rooms — the Restaurant, with gleaming mahogany paneling, and the smaller Georgian styled Grill Room — both serving dishes prepared with meticulous care under the supervision of Michel Bourdin, for many years Sous Chef to his mentor, the renowned Alex Humbert, who, during the 1950s, made famous Maxim's in Paris. Zago brought Bourdin to The Connaught 18 years ago. The pièce de résistance is the extensive

Grande Carte menu of French cuisine and traditional English specialities but, for luncheon, there is also a table d'hôte with a generous choice for a three-course meal. During the Game Season, between August and January, the Grande Carte includes an unmatched variety in choice of grouse, wild duck, woodcock, pheasant and partridge, cooked and presented to perfection.

When asked about change for The Connaught in the 1990s, Zago replies: "Our guests keep reminding me 'don't change a thing.'"



The Connaught in Mayfair is the last word in aristocratic service, with a staff mostly in morning dress.

ART AND ANTIQUES FOR THE CARRIAGE TRADE

For Claridge's, life since Richard D'Oyly Carte turned it into a sophisticated hotel has been a marriage of impeccable service and discerning guests. The hotel offers assurance that long servers on the staff will greet you like an old friend, the fire will be crackling in the Hall and the champagne cork will pop — but softly and discreetly.

"Downstairs, it has the feeling of a grand hotel," says Director and General Manager Ronald F. Jones OBE. "Upstairs, it's comforting, relaxing and reliable."

Not without a sense of humor about the hotel, Claridge's staff will recount how two kings once demanded the sumptuous royal suite. A quick-thinking manager told them that most unfortunately the ceiling of that suite had fallen, averting an international

An evening out could include taking in a performance at the Royal Opera House.



From its handsome Front Hall to its stylish suites, Claridge's is a model of royal comforts.

incident by giving them suites of equal status on separate floors.

After a day of touring London — it could be a visit to the Wallace Collection, one of London's best-kept art secrets — it's a help to have a maid brush your hair and run your bath, a valet return the jacket (in tissue paper) you wanted pressed and a waiter deliver caviar and champagne before you step

out to Annabel's for the evening. Or would you prefer a *filet d'agneau poele à la creme de menthe fraiche*, the chef's specialty, in Claridge's own restaurant, served to the sounds of the Hungarian quartet?

It's all part of the wonderful British blend of modern comforts and traditional style. As Clement Attlee, first Earl Attlee and British politician, stated so aptly: "The British have the distinction above all other nations of being able to put new wine into old bottles without bursting them."

That's what British Airways, in fact, has done with its Lounge Pavilion in Terminal 4 at Heathrow. There, in clubby surroundings that look and feel like rooms in a deluxe hotel rather than an airline lounge, you can relax, drink, dine — or even snooze — before your flight home.

Whether your taste runs to city sophistication or country charm — or both — Britain and Ireland offer many options for a pleasurable break from the workaday world. For more information about travel to Britain and Ireland, please contact:

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"Gems of the British Isles" was written by J. Paul Axline, a Harvard-educated author who has lived in London.

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DUSTERS

"A design so good it actually works," reports our hard-working cowboy, alert to the need to keep the water and wind out, and the heat in.

If a cowboy's saddle is the Leather Throne, this is the room it is in. (Some call us the Highly Exalted, and there is a reason for this. We will never be replaced. No mere machine could stand the abuse.) Why, verily, the hat itself was the invention of John B. Stetson, who called it, modestly, the Monarch Of The Plains.

The duster is one of those designs so good it actually works, does everything possible to ward off the weather. Riding, you unsnap the back gusset, splitting the coat so that it covers both your legs and the saddle. The rain flap over the shoulders, where the weight of the duster hangs, sheds the water and keeps out the cold. Two layers on the shoulders and then the chill doesn't come through so much. The collar turns up good and high around your neck and snaps. And it is made of good English waxed cotton, just like you see on all them New Yorkers these days, on their way to a duck blind in Queens.

Now consider the subject of the Highly Exalted. Calves refuse to be born at all unless there is a full-blown blizzard going, though rare exceptions will consent to appear if the mother is buried up to the ears in a mudhole. (The essential difference between a cow



Amid the folds of a duster, "I could be so heavily armed I oughts be commissioned a man-of-war."

and a sheep is the cow is always looking for a place to hide, while the sheep is always looking for a place to die.) You are not standing quietly during this blizzard or rainstorm, you are dodging through the brush looking for the leetle darlings. To know a little bit how it feels, do go through a carwash on a pogo stick. One-handed.

I wear my duster walking in town in hellish weather, for nothing keeps out the wind as well. They are marvelous for sitting in duck blinds, and when I am in large cities where more than the weather is hostile, I could be so heavily armed I oughts be commissioned a man-of-war, there amid the lengthy folds.

Montana Dusters has been making these for a long time, along with hunting coats and such, and they are very well thought of by us Highly Exalted reduced to the herding of dudes on pack trips. Our new subjects have the same habits as the old ones, so we don't got to retrain.

As for the Highly Exalted, the best way to make a good cowboy is catch a sheepherder and beat his brains out.  —COYOTE JACK
(All Montana Frontier Dusters are custom-made. Available in black, green, navy and brown, they cost \$250. Call Pat Legato at 406-721-0284.)



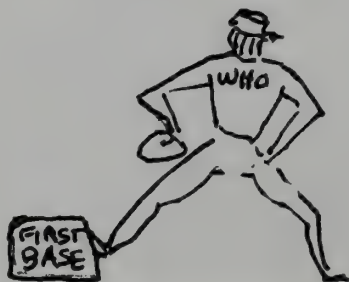
Drinking In March

BY DON VIVANT

March is a splendid month for drinking, far better than most of the other months—although the others are excellent for drinking, too, each month in its own individual way, of course. Some of the months are admittedly a bit monochromatic in terms of drinking; August, for instance, is so clouded by gin-and-tonic that it seems almost subaqueous, translucent with a slightly blue cast, like the light from a television seen from the street. The Merry Month Of May is rather tediously jolly, jolly, jolly. November is the brownly melancholy with Manhattans and bourbon-on-the-rocks triumphing, the way they do each year, over the vodka gimlets and dry martinis of October.

But March is different! March is ecstatically kaleidoscopic, endlessly variant and mysterious and challenging. March is veritably the Cleopatra of drinking months: custom cannot stale her infinite variety.

There is something to have a drink to celebrate on every single day in March!



March 6th

On **March 1**—*the very first day!*—for instance, Ohio becomes the 17th state to enter the Union in 1803. Think of it! The 17th state! That's well worth drinking to! What would we do without Ohio, right there somewhere out there in our country? Think of the *hole* it would leave if it weren't there. IT'S certainly worth three or four down-to-earth blended American whiskies with beer chasers, just to celebrate old Ohio being there just where it should be!

Then, the next day, **March 2**, but 33 years later, in 1836, Texas declared its independence of Mexico. Margaritas are what's called for here, with salt on the rim, and a platter of tacos. Viva La Lone Star State!

March 3 nothing much happened, not since St. Cunegond, Queen of Bavaria, died in 1033. But don't let that matter! For such a lemon of a day, make whiskey sours with nice, fresh-squeezed lemon juice, sip contentedly.

On **March 4**, 1969, Chastity Bono was born to Sonny and Cher! So much baby business cries out—*squalls!*—for a drink with some dairy in it: a brandy Alexander would be both soothing *and* celebratory.

On **March 5**, 1953, Joseph Stalin died, which of course requires drinking fine Russian vodka.

On **March 6**, in 1908, Lou Costello was born. We should commiserate with this most obtuse man. He

never seemed able to grasp simple facts about a certain baseball team: the first baseman's actual name was "Who"; the man playing second base was called "What"; and the individual on third base had the rather odd name of "I. (perhaps for Ivan?) Don't Know." Nothing hard about that. Calls for cold beer and Fenway franks.

On **March 7** Luther Burbank was born in Lancaster, Mass., in 1849. Among the plants this horticulturist developed are the white blackberry and the spineless cactus. You have the white blackberry wine, and I'll have the spineless cactus tequila.

March 8 is the day of the Full Worm Moon, which marks the beginning of warming weather, when small creatures begin to come back to life. It cries out for toasting with mescal with the authentic worm in the bottle.

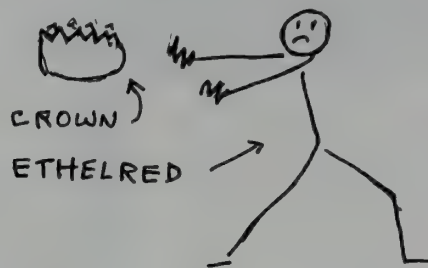
March 9 is Panic Day. The idea is to "run around all day in a panic, telling others you can't handle it anymore," according to the sponsors, the Wellness Permission League, organized by Tom Roy and Ruth Deck. Have something calming and good for your ulcer, like a scotch-and-warm-milk.

Of course, you have an alternative for March 9, for on that day in 1822 the first patent for artificial teeth was issued. Pour into a shaker: 2 ounces of gin, 2 ounces of Grand Marnier, then stir in a tube of Polident, and *thelebrate*!

March 10, 1876, was the first time anyone was peremptorily summoned by telephone. Alexander Graham Bell transmitted the message to his assistant, who was right there in the next room: "Mr. Watson, come here. I want you." To counteract the aggravation we feel with most modern conveniences, let's have a daiquiri made in a blender.

On **March 11**, in 1302, Romeo married Juliet. Some dispute this date, but I'm not one of them. Of course the marriage didn't last long, but let's toast Love anyway—with Champagne, of course!

On **March 12**, 1912, a man parachute-jumped from an airplane for the first time. It would seem appropriate to celebrate in a Tiki bar with a lot of those rum drinks



March 18th

that come with little umbrellas stuck in them.

On **March 13** nothing seems to have happened. Do without a drink. It won't hurt you.

March 14, in 1879, Albert Einstein was born, and on the same date 93 years later, in 1972, Burt Reynolds appeared nude in a *Cosmo* centerfold. To celebrate this triumph of body over mind, have a gin sling, if you can find the recipe.

March 15 is the Ides Of March, when Julius Caesar was assassinated in Rome: Strega on the rocks.

March 16 is the anniversary of the My Lai massacre. Here we should drink not to celebrate but to regret and forget. Bloody Marys, I'm afraid.

March 17 is St. Patrick's Day. Jameson's Irish whiskey chased with Guinness stout. Try not to litter.

March 18, in 978, Ethelred the Unready became King of England after the assassination of St. Edward

Lamb → MARCH → Lion						
1 OHIO WHISKY 	2 Texas margaritas	3 whiskey sours	4 brandy Alexies	5 wodka! wodka! wodka!	6 ballpark beer in Lou!	7 white blackberry wine (yuck!)
8 	9 call Tom and Ruth	10 liquid daiques	11 champs for Love Day!	12 	13 ouch!	14 gin sling

A MARCH DRINKING CALENDAR can be very helpful. (see text for explanation)



EGG BETTY
March 26th

the Martyr. Scotch and water, no ice, to help steady the poor fellow.

March 19 is when the swallows return to Capistrano. Requires an estate-bottled, dry red wine from a fine California vintner; pay \$19.95 willingly.

On **March 20**, 1928, Fred Rogers was born. The other

day he spoke to me from the TV and said he liked me just the way I am, something no one has otherwise said to me in a long, long time. Toast him with the oldest and most expensive cognac you can find; he deserves it.

March 21 ushers in a sequence of perfectly splendid drinking days, remarkable even for the month of March. For March 21 is not only the first day of Spring (the vernal equinox) but also the first day of the Zodiac's sign of the Ram (both well worth celebrating).

Now the very next day, **March 22**, is the birth date of Captain James T. Kirk of the Starship *Enterprise* in the year 2233; he will be born in the small Iowa town of Riverside, which has issued a proclamation of this "Future Historical Event." But think of this: on the very same day, in the year 1931, William Shatner, the actor who brought Captain Kirk to life on the "Star Trek" television series, was born—302 years earlier! Makes you think, don't it? And to think is to drink, to paraphrase Descartes, and the absolute best drink for thinking is sherry. Sit contemplatively in a wing chair by the fireplace, sipping and savoring a fine glass of sherry, and meditate on these events. Try to make sense of them, try to make it all add up.

Then the very next day, **March 23**, in 1775, Patrick Henry said, "Give me liberty, or give me death," words that shake the soul, and a shaken soul wants a shaken drink—martinis made the way James Bond always wanted his: "shaken not stirred." Not too many martinis, though, for the next day, **March 24**, is the anniversary, in 1989, of the *Exxon Valdez* oil spill, 11 million gallons of oil into the beautiful Prince William Sound, and one ought to have martinis again, this time with a lemon twist to squirt the oil of the peel to spread out over the crystalline clarity of the chilled gin. Imagine: two consecutive days to have martinis! Oh, March is a *superlative* month for drinking!

March 25 was the first day of the first month of the Roman year, until the Gregorian calendar was adopted, in England in 1752. The original Roman calendar, introduced in the seventh century B.C., had ten months with

305 days that began with March. Imagine a year with 305 days beginning in March! Don't try to tell me that isn't a swell reason for drinking! A quick, fast year like that calls for a sloe gin fizz.

March 26, 1908, was the birthday of Betty MacDonald, author of the famous book *The Egg And I*. Drink egg nog in honor of her, and consider how fleeting is fame, especially bestsellerdom.

March 27, 1958, Nikita Khrushchev became premier of the old U.S.S.R. Remember how he said, "History is on our side; we will bury you"? We should celebrate with a resurrection cocktail. Try a "Vampire"—equal parts vodka and creme de cacao.

March 28, 1909, was Nelson Algren's birthday. Nelson was one of Chicago's greatest drinkers; and if he ended his days in the Hamptons, he was in good hands toward the end (Betty Friedan's actually, oddly); and it would be appropriate to lift a glass of bourbon in tribute to him.

March 29, 1867, Canada was created by order of Parliament, so have some of their national drink, if they've settled on one yet.

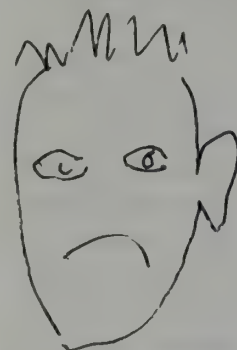
March 30, 1853, Vincent van Gogh was born, and if you don't feel like toasting the exorbitant prices his work has been getting (now that it's too late for him), you can still congratulate yourself on never having cut off your ear out of love for a hooker—unless you ever actually *have*, of course. Pastis and water always take away the aches in Provence.

It is only now, the next morning, that we come to **March 31**, for March is a nice *long* month for drinking. And on March 31, in 1621, was born Andrew Marvell, who wrote:

*But at my back I always hear
Time's winged chariot hurrying near;
And yonder all before us lie
Deserts of vast eternity.*

And if *that* isn't a culminating reason for having a drink I'll never know what is! *Carpe diem*. Seize the damn day. Eat, drink, and be merry, for tomorrow we—uh—may not be able to, for one reason or another. The sense of our mortality has always been the best reason of all to have a little snort, even in a Month of Sundays.

For remember: tomorrow is April Fools' Day, and the joke is on all of us. ☞



V. VAN GOGH
MARCH 30th

Don Vivant

HOT & COOL

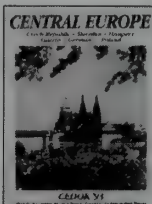
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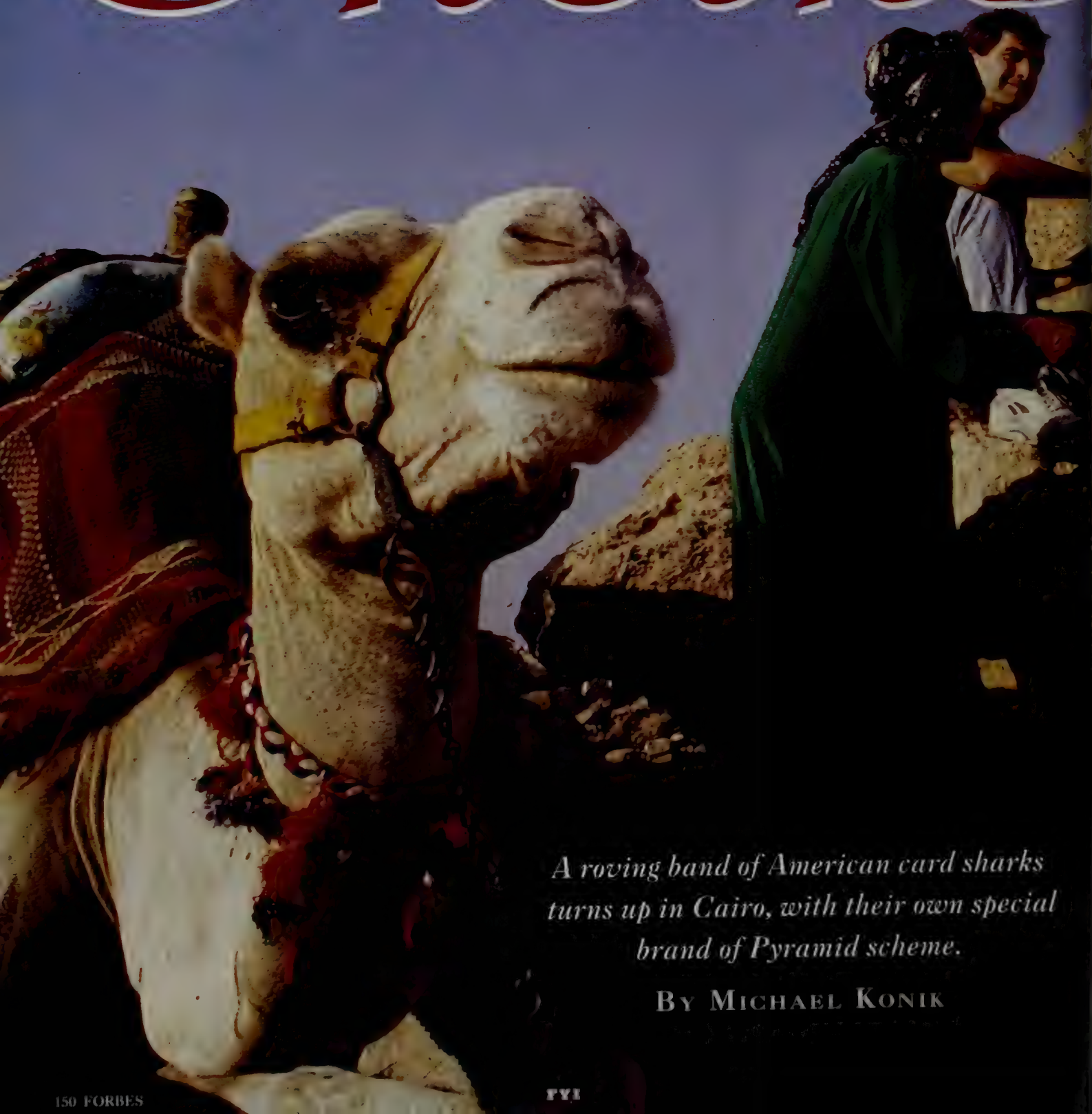
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Shakin'
Down
The

Sheiks



*A roving band of American card sharks
turns up in Cairo, with their own special
brand of Pyramid scheme.*

BY MICHAEL KONIK

*A show of hands: the American pros would
play poker anytime, anywhere.*



"THE BASIC IDEA BEHIND COMING ALL THE WAY to Africa to play in a poker tournament is: anyone we haven't seen before, we can beat. It's really simple as that. If I don't know them, I'm better than them."

Eric Drache, the poker room manager at Las Vegas's Mirage Hotel, is holding court at Cairo's Casino Shehrazade, site of the inaugural King Tut International Poker Tournament. Accompanied by a contingent of professional gamblers that includes some of America's best card players, Drache has journeyed to Egypt in search of The Big Score—that pot at the end of every professional poker player's rainbow. In previous years, The Big Score has had Drache and a gang of well-heeled poker celebrities criss-crossing the planet like jackals in search of fresh meat, trekking from Malta to Morocco, Australia to Austria to find men (and women) willing to play poker for virtually any stakes, armed with a degree of card-playing skill blissfully smaller than the size of their bankroll. "We don't give a damn about their politics or their religion," says Drache, "and we really have no respect for their money. Poker's a great equalizer."

Last September found the high-rollers hoping The Big Score would come from someone who looks roughly like Yasir Arafat, owns an oil field or three, and has not the slightest qualm about wagering sums approaching the average American's annual salary on a card game he barely understands. In short: a fun-lovin' Arab.

"The whole key to winning at poker is playing someone you're better than," Drache explains. "You might be the 10 millionth best player in the world, but if you're playing the 11 millionth you'll win. Of course, it helps to be in the top 50."

Drache does know a thing or two about cards. Back in 1982, the now defunct *Gambling Times* ranked him the sixth-best seven-card Stud player in the world. "His trouble," they said then, "is that he only plays with the top five." So for someone like Drache, plunking down \$3,750 for the King Tut Tournament's package deal is a worthwhile investment, if only to escape the all-too-familiar faces of Vegas.

Here Drache is one of several dozen Americans, including a crack crew of imported dealers and floor personnel, holed up across the street from the Pyramids at the Mena House Oberoi Hotel, Cairo's finest digs.

Originally a hunting lodge favored by Egyptian royalty, the Mena House is now slathered in crystal and rosewood and gold, and home to a casino where Saudi sheiks routinely stop by to drop \$50,000 at the roulette wheel. The chief, if unstated, motivation behind the King Tut Tournament is to intercept those very same sheiks (and their petrodollars) before they scuttle back to their harems. (Because of strict Islamic law, gambling is, of course, forbidden in virtually every Arab state except Egypt. But even guys who think that if you don't believe in Allah, you ain't shiite, gotta have fun.)



Not-so-innocents abroad: the American pros volunteered to "teach" the Arabs their brand of poker.

The tournament organizers, Nagy Younan, a former Vegas dealer turned fledgling entrepreneur, and John Hall, the Casino Shehrazade's British manager, hope to provide an interesting diversion for the sheiks, a delightful, challenging interlude filled with camaraderie, sportsmanship and good cheer. In other words, a poker game in which the American pros can take the Middle Easterners for all they're worth.

By the end of the first day of the scheduled ten-day extravaganza, it becomes clear to the Americans that the Tournament will live up to its "International" billing, at least. There are five-card-Draw-playing emissaries from Germany, England and Nepal. There are card sharks with strange accents from Allah-knows-where. And there are even a handful of players who meet Drache's unfamiliarity test, like the tax-dodger from the Isle of Man, and the importer-exporter of some mysterious commodity who resides somewhere in the Western Hemisphere.

Unfortunately for the Americans, though, there aren't many faces from the Persian Gulf. Indeed, by 10 p.m., when most Middle Eastern big shots have yet to

finish dinner, a general uneasiness over the dearth of sheiks has already permeated the casino floor. Dealers fidget at empty tables. The floor personnel fiddle with the studs on their tuxedos. And the Americans, clad in track suits and gold chains, huddle in expectant, anxious clumps. Manning Briggs, a voluble Texan who has come strictly for the side games (where the action is ten times as big as the tournament, with its modest entry fee of \$500) tells the group, "I just want to see somebody walk in here wearing a robe!"

Reacting quickly, John Hall assures the anxious pros that several members of the Kuwaiti royalty regularly stop by to gamble. "They'll be here," he says, smiling. "They'll be here."

Maybe not. Out of the player's earshot, Hall tells me of 20 punters from Great Britain who canceled on short notice. "They had inquired about attending, but they were doubtful as to the seriousness of the activities. I gave them a list of the Americans scheduled to compete. Apparently they decided it was a bit *too* serious."

Waiting for a guy named Abdul or Achmed to show up, the players amuse themselves with a friendly game of \$50-\$100 Dealer's Choice—mostly Hold 'em and seven-card Stud, with pots routinely building over \$2,000, chicken feed to this gang. Several minutes later, a corpulent, be-robed Kuwaiti waddles in; to the American players, he's little more than a wallet waiting to be emptied. Their faces rise in unison as he and his bodyguard head toward the green baize poker tables—and then fall as he plops himself down at the roulette wheel. As the sheik litters the field of numbers with stacks of chips, the Americans' eyes take on the sort of glazed, half-drunk quality normally found in men ogling an unattainable woman. The drooling is almost audible as the Kuwaiti proceeds to lose several grand in about four minutes.

Dozens of accusing eyes turn toward the Tut's organizers; mutiny seems inevitable; rebellion is in the air. And then, as if delivered by Allah, The Moustache makes his entrance.

He is fully costumed in a flowing white *galabia*, with a matching *challah* wrapped around his head. His hands are thin and delicate, his eyes dark and full of amusement. In softly murmured Arabic, the Kuwaiti "businessman" with the magnificent moustache tells one of the suddenly smiling organizers that he would like very much to play some poker.

He is escorted to one of the games in progress and is promptly seated across from a handful of chop-licking Americans, who can barely contain their glee when an

attendant fetches him \$10,000 in chips. An exotically outfitted companion sits to his side, whispering conspiratorially. The grinning Americans look at the Kuwaitis and think, "What a bunch of clowns!" The Moustache and his pal stare across the felt at Puggy Pearson's smashed-in nose and omnipresent cigar, Manning Briggs's foot-long ponytail, and Eric Drache's Beatles-meet-Henry V haircut and think, "What a bunch of clowns!" One of the parties, to be sure, will be disabused of that notion in approximately five minutes.

Like vultures, Americans from every corner of the casino dash to claim the remaining seats at the table.



"Would you fellas be interested in a friendly little game of cards?"

They suggest a \$300-\$600 Stud game. But the shift supervisor, John "Schof" Sheffield offers a surprisingly diplomatic proposition: "You've got to start out low," he whispers. "These sheiks come here the first night and lose \$2,000, but they have fun. So they come back the next night with \$5,000 and a friend. And then they come back with \$25,000 and lose that. Hey, that's how the pyramids were built!"

So the players agree on a \$25-\$50 pot-limit Omaha game, a form of poker in which pots that begin as a humble pile of chips gradually grow to be as high as obelisks. In Omaha, each player starts with four cards in his hand and must match two of them with three cards turned up on the table to make his best five-card hand. It is a poker game The Moustache says he favors, probably, the pros infer, because every hand looks good—even the worst quartet of "rags" can turn up a winner. What The Moustache apparently does *not* know is that in Omaha the skill edge between a rank novice and an 80-hour-a-week Vegas veteran is magnified about 100 times. In the long run, sure as a flush beats a straight, the pigeon will lose.

On the first hand dealt, The Moustache and Manning Briggs get involved in a pot. Though the Kuwaitis are paranoiacally publicity-shy, I am able to get

In softly murmured Arabic, the Kuwaiti "businessman" tells one of the suddenly smiling organizers that he would like very much to play some poker..

close enough to see that The Moustache is holding nothing. Nothing but dreams. Just a series of random, unmatched cards. And yet he's invested nearly \$3,000 in the pot. Briggs, on the other hand, has two pair, aces and fours. With two cards to be dealt, The Moustache needs a miracle—which he duly gets: the penultimate card gives him a meager pair of Queens (and more than



But were they all pipe dreams?

enough motivation to toss in another \$3,000); the last card—praise Allah!—is another Queen, giving him three ladies, or, in poker parlance, “six titties.”

Upon seeing the Kuwaiti's hand revealed, most casual poker players would probably sneer some derogatory expletive, roll their eyes heavenward and fling their cards at the satanic dealer. Not Briggs—not even with \$15,000 in the pot. The consummate pro, a man who knows that in the short term the rabbit may stalk the hunter but will eventually end up stewing in a pot, Briggs bows his head ceremoniously and says, “Nice hand, sir. Very well played.” Then he applauds lightly as The Moustache rakes in his unlikely spoils. The other players, shooting knowing glances around the table, dutifully join in, forming an obsequious clique that will shortly turn ruthless.

Two hours, 50 hands and many thousands of dollars later, The Moustache is broke.

The same scene repeats itself two nights later when another Kuwaiti swaggers into the Casino Shehrazade, itching to play some seven-card Stud. The Americans gladly oblige, anointing him “The King”—as in “of Poker”—while they systematically drain him of cash. The first night The King bets on every hand, seemingly oblivious to their relative merits (or lack thereof).

Starting with three small, unmatched cards, The King tosses chips into the pot as if they were so many match sticks. Even when it is patently apparent to everyone at the table that “Cajun Joe” Petro, from Lafayette, La., has a powerful pair of Aces in his hand, The King

flings away, as if desperate to get rid of the chips stacked before him. Even when The King's meager pair of threes are up against Vegas pro Chuck Sharp's wired tens; when his inside-straight draw is matched against former California champ David Wight's made two pair; when the hapless Kuwaiti has, in short, brought a knife to a rocket-launcher fight—even *then* he continues to toss away. No matter the bet—\$75, \$150, \$300—The King plows on, intoxicated by the \$4,000 pots his recklessness has helped create. Miraculously, as the sun dawns over the Sahara, he is winning. Before it dawns again he will have lost everything.

To the players' chagrin, though, this kind of fast-and-loose action occurs with disappointing infrequency. The King shows up a few more times, as does a secretive Palestinian living in Cyprus—but the hoped-for Saudi billionaires stay away. What's worse, it's not even the Americans' fault. According to a large group of sheiks I found playing blackjack at two downtown casinos, the Middle Easterners enacted something approaching a group boycott of the King Tut Tournament because the management at Casino Shehrazade does not treat them with “the proper respect.” If they are going to lose their money, they say, they would at least like to get something in return. Good old-fashioned kowtowing, for example.

Deprived of the hoped-for action, the Americans find a variety of amusements. There's plenty to do. This is Egypt, the birthplace of art and civilization. The sights are majestic, awe-inspiring, and right across the street. But to most of the players, experiencing “local culture” means catching a little bellydancing and stuffing \$10 bills in the dancer's cleavage.

*To most of the players,
experiencing “local
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What these boys like to do best is gamble. On anything. Even in Egypt, there's no escaping it. On the bus to the airport, in the ten minutes it takes to check luggage, during a tour of the sacred Great Temple of Amon—out come the cards. In their downtime, the Americans play golf for \$100 a hole, gin rummy for \$50 a box, or backgammon for several hundred bucks a point. (One well-known player loses over \$20,000 in one disastrous session.) Someone

briefly considers organizing a series of camel races but decides the outcome could be too easily fixed. Out on a shopping spree at the Khan el-Khalili bazaar, Puggy Pearson—former World Champion of Poker Puggy Pearson—happens upon a cafe filled with Egyptians smoking water pipes and playing some sort of inscrutable card game for stakes equivalent to about 30

THE MOST PRODIGIOUS POTS

For millions of Americans who play in friendly, once-a-week poker games for five or ten-buck pots, the sums for which the average Vegas pro toils must seem outrageously high: \$15 to \$30 Lowball; \$20-\$40 Hold 'em; \$50-\$100 Stud, et cetera. To the poker world's elite, such stakes are child's play; what they're after is the ultimate, the biggest game of 'em all. Here, a few seasoned sharpies reminisce on prodigious pots past.

Yosh Nakano, California-based pro: "The biggest game I ever played in was the legendary \$3,000-\$6,000 limit game with the Frenchman. I played at the early stages, when it was only \$800-\$1,600. Johnny Chan and Stu Ungar did very well—I can't tell you the numbers, but it was big."

Tony Shelton, floor man, Binion's Horseshoe: "In '86 and '87, we had a \$400-\$800 pot-limit Omaha game at the Horseshoe. Chan, Chip (Reese), Doyle

(Brunson), Puggy, they were all in it. Pots were built up to \$25,000 before the [community cards] were dealt. There were easily swings of \$750,000 in that game."

Lou Camerano, shift supervisor, the Mirage: "We had a \$1,000-\$2,000 pot limit Razz [Lowball] game at the Golden Nugget in 1987. A guy could expect to win or lose \$500,000 if he played all day."

Eric Drache: "We were playing \$1,000-\$2,000 Stud at [*Hustler* publisher] Larry Flynt's place. Larry was being 'booked' by three of us, which means the amount he won or lost would be matched by us. So Larry, in essence, was playing \$4,000-\$8,000 Stud. This was during a period in the '80s when Larry would bet \$500,000 on a baseball game. He was a nice guy, but he got easily distracted. He was into all these JFK conspiracies and stuff... He'd have something like Ace, King, Queen of clubs showing, and some assistant would come up

and hand him an envelope with, like, new information on who shot Kennedy, and he'd just fold his hand and walk off.

"Well, the first week he won about \$270,000. The second week he lost about \$950,000. And the third week he decided to run for President. So that was the end of the game."

James "Blacky" Blackburn, gambler and raconteur: "These guys in Vegas, Doyle and Chip, I never thought they had much belly. I've seen guys in Katmandu gamble \$1 million on one *hand*. The white face doesn't have the heart for that kind of gamble. You gotta be an Indian or Chinaman to do something like that."

Ron Iler, dealer, the Mirage: "The big games aren't measured in money, they're measured in inches of \$100 bills. If someone asks how you're doin' in the game, you don't tell them, 'thirty, forty thousand...,' you say, 'I'm up about nine inches.'"

cents. His girlfriend drags him away moments before old Pug is about to pull up a chair and make the boys a fair offer. "Ah recognize the game!" he implores, in his Tennessee drawl.

Most of the Americans, though, have a peculiar way of investigating the nearby archaeological sites: arrive, snap a photo, leave. One day, the group decides to rent a stable of Arabian horses and ride them across the Sahara to the Pyramids at Saqqara, site of King Zoser's Step Pyramid. After more than two hours of riding, during which two horses attempt to roll over on their poker-playing jockeys and another takes off at full gallop for its stable at Giza, the Americans arrive and, ignoring the 5,000-year-old artifacts all around them, promptly pile into taxicabs and head back to the Mena House. Later in the week, half the group disappears during a guided tour of the Egyptian Museum, home to King Tut's treasures, among many other marvels. They are eventually discovered at the Hilton, ordering cheeseburgers.

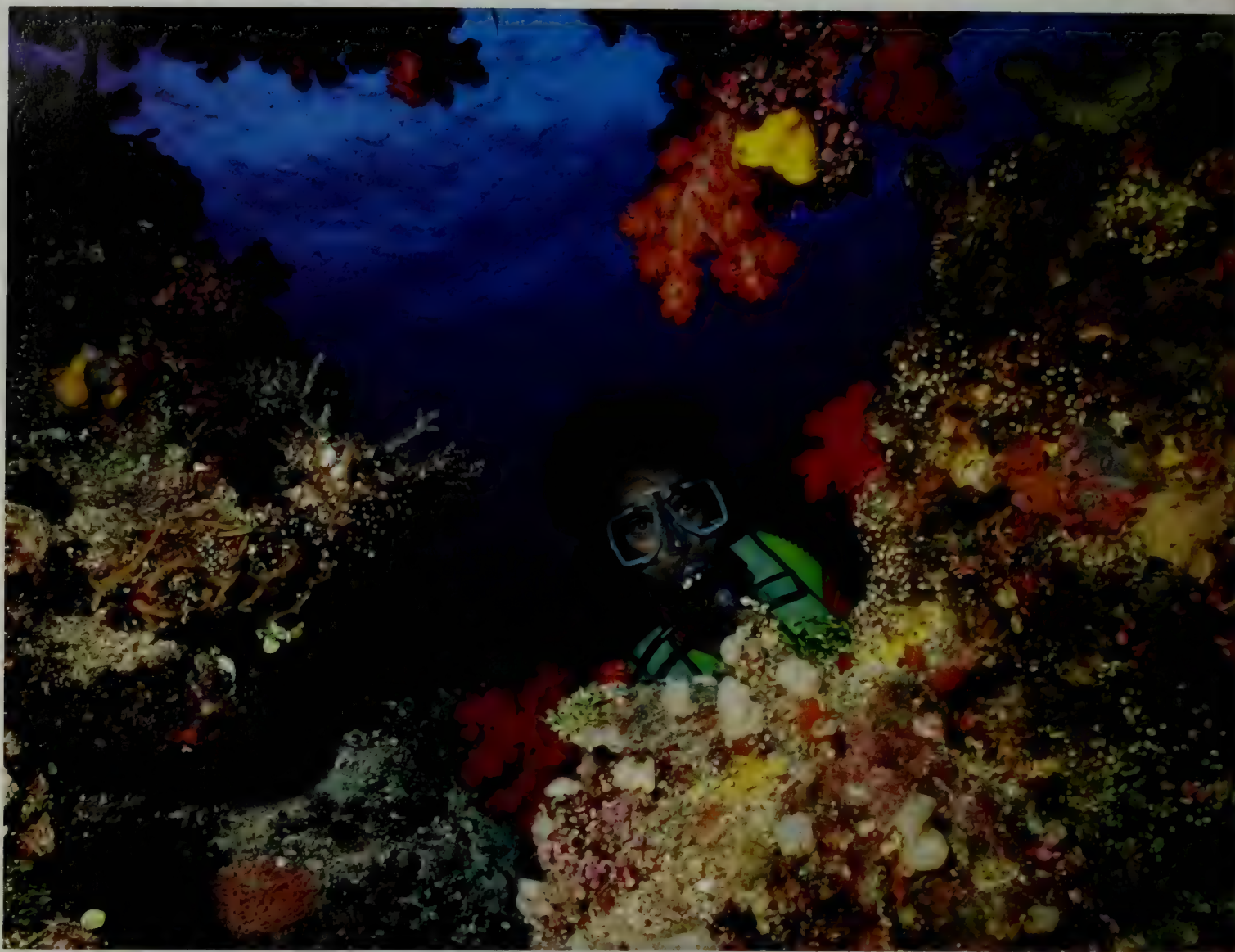
Given their inescapable proximity, eventually every one of the King Tut Tournament's participants gets

around to making a perfunctory visit to the Pyramids at Giza. The Pyramids are beautiful, enigmatic, eternal. They are also a constant reminder that the outcome of a poker tournament in the desert is, in the end, colossally inconsequential.

Still, the Americans would rather be gambling.

And so they are, on a five-star cruise of the Nile, heading from Luxor to Aswan. As the boat floats down the great river, the Americans are too preoccupied to notice what's passing by, though they do occasionally dash upstairs to get a peek at the topless Europeans lolling on the sundeck. Little Nubian boys herding hump-backed oxen; man-size slabs of granite cut out of the mountains; traditionally clad Bedouins riding skinny white donkeys; ancient tombs hidden in the hillside... All of it might as well be buried underneath the sand. The Americans are ensconced in the boat's air-conditioned lounge, busy playing poker. 

MICHAEL KONIK, a New York-based free-lance writer, has never even come close to winning the World Series of Poker.



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9. VIBRAM Vibram free information pack describes an innovative program to restore footwear designed around Vibram soles, including details about a network of Vibram Authorized Dealer repair shops that will perform this service by mail. There's even an order form enclosed.

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10. VOLKSWAGEN You don't have to be rich to discover a European driving experience that is. Turn to the new Volkswagens. Call 1-800-444-8987.

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11. HP MARKETING/ROLLEI DIVISION This "point 'n' shoot" 35mm camera does everything but cook! Smaller than your hand (and under 7 oz.), it's fully automatic! With retractable Rollei f3.5.

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28. RAFFLES HOTEL Of worldwide fame, the recently restored Raffles Hotel is a splendid and unique attraction for visitors to Singapore as well as a National Monument.

29. SHANGRI-LA INTERNATIONAL Shangri-La Hotels and Resorts, renowned for our warm hospitality and deluxe properties in Asia, is expanding dramatically from its current portfolio of 21 hotels and resorts to 28 by 1994.

OTHER

30. DEERE & COMPANY — LAWN & GROUNDS CARE DIVISION Send for free brochures on any of our lawn care items. To locate the John Deere dealer nearest you, please call 1-800-544-2122.

31. DIAMOND TEL® CELLULAR PHONES BY MITSUBISHI ELECTRONICS Mitsubishi Electronics is the manufacturer of Diamond Tel Cellular Phones. The Diamond Tel line includes the 22X Micro portable cellular phone, M-14 Mobile and 92T Transportable cellular phone.

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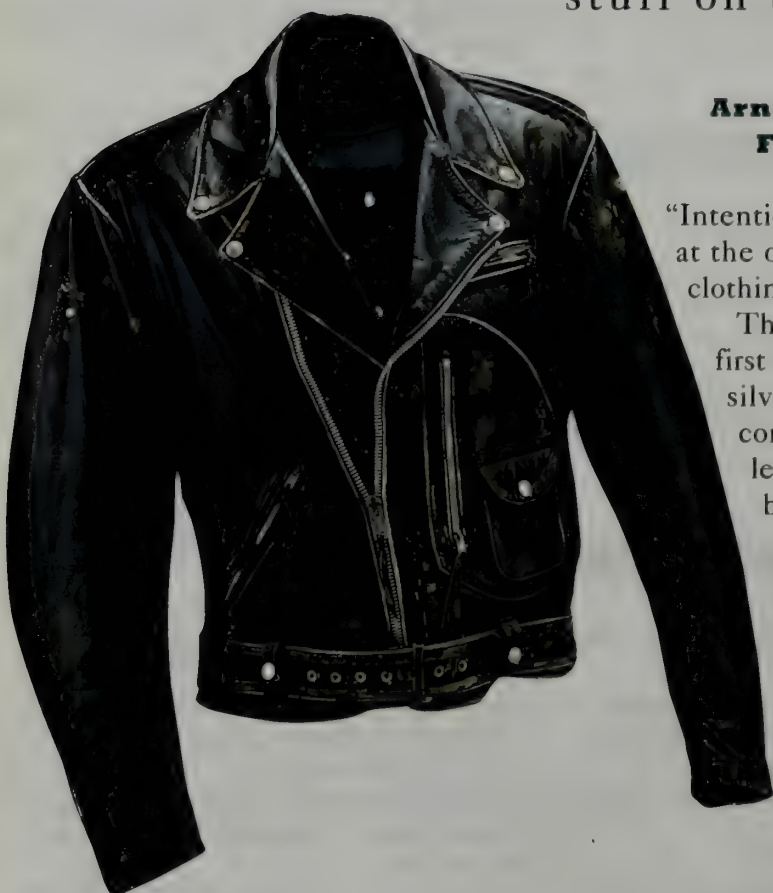
One of Bonnie and Clyde's final arsenal, at Red Baron.



IN SPRING A MAN'S FANCY TURNS TO LOVE

BY ALLISON MOIR

(or is it French postcards?). From fire lamps to firearms, we've found some hot stuff on this spring's auction calendar.



Arnold Schwarzenegger's Leather Jacket From "Terminator 2: Judgment Day" Butterfield & Butterfield

"Intentionally distressed." That's how most of us feel after a day at the office. It's also a Hollywood costumer's term for making clothing look worn.

This Stage 2 jacket—meaning "Ah-nold" wore it when he was first shot in the "Mall Prep Scene" according to the costumer's silver ink notes written inside the front left pocket—comes complete with 12 bullet holes. The lining is Velcroed in to leave room for bullet packs—exploding devices that simulate bullet hits.

This custom-made for Arnold biker jacket is estimated at \$6,000-\$8,000. Consider it a bargain: a while back a Stage 1 jacket (used in the beginning of the film and not "intentionally distressed") sold for about \$13,000 at auction in London.

Also for sale at the Butterfield & Butterfield Entertainment Memorabilia sale on March 14 and 15 are Arnold's X-large black T-shirt with six bullet entry holes and one large exit hole (estimated \$600-\$800); Linda Hamilton's

Bonnie and Clyde's Colt .45, Red Baron, Atlanta

Mr. Stathem swears, in an affidavit signed by the Andrews County, Texas, Notary Public on April 13, 1977, that this revolver is the *exact* same gun that his father, who was "installing a new roof" on the Parish Court House at Gibsland, "saw removed from the death car by Oaks." The affidavit goes on to explain: "[My father] then said that he believed that it had been re-plated since then. He also stated that several guns were removed, and that not all were turned in to the County." In

If you believe this Andrews County, Texas affidavit, then this revolver is worth the estimated \$7,000-\$10,000. You decide.

On sale March 13
at Red Baron's
Antiques. Contact
Julie Brooks: 404-
252-3770.



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Subtotal

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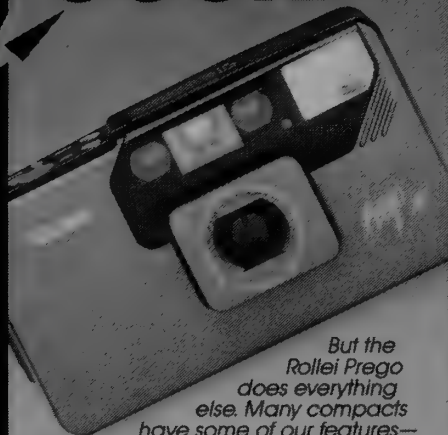
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TOTAL

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Also up for grabs: three ledger account books from Buffalo Bill's Wild West Show from November 1886 to February 1887 (estimated at \$5,000-\$7,500); a large collection of Churchill and Roosevelt memorabilia; Russian bonds issued by the Czarist government printed in Russian, French and German (\$200-\$300); *Lusitania* letters—a postcard mailed by passenger Alice Winifred Bingham just moments before boarding on May 2, 1915, a telegram dated May 15, 1915 about the unsuccessful search for her body and four other pieces (\$800-\$1,200).

On the block April 29 in the Swann Galleries Ephemera sale. Contact: Caroline Birenbaum, 212-254-4710.

18th-Century Gold Treasure, Sotheby's, New York

1,658 gold coins—doubloons and half-doubloons—were salvaged in April 1992 from the murky, silty waters of the Rio de la Plata, almost 500 miles off the coast of Montevideo, Uruguay.

A positive ID for the wreck has eluded the sellers, salvor Ruben Collado and the Government of Uruguay. The current theory is that the treasure is from the *Nuestra Senora de la Luz*, a Portuguese treasure frigate (sailing under authority of the "God, Gold and Glory" Spanish colonialists) en route from Buenos Aires to Cadiz, Spain, via Montevideo. In 1752, the *Luz* sank in a "Pampero," a violent and unpredictable south-west wind blowing from the mainland. Ninety percent of the *Luz*'s registered cargo was recovered shortly after the wreck. So what Senor Collado found is the contraband cargo from the *Luz*. The high ratio of gold in relation to silver and the traces of gunpowder found in the area support this theory.

Or, these objects could come from more than one wreck, since nothing's been found to indicate the

name of the vessel.

Most of the 1,658 gold coins are dated 1749, 1750 or 1751 and carry the effigy of Ferdinand VI of Spain (1746-59). They were probably mined and struck by machine at Santiago, Chile, then carried across the Andes by mule train for shipment to Spain.

On the block are a total of 600 lots comprised of 1,658 gold coins, 320 silver coins, 90 hand-hammered gold



Loot sweet: gold doubloons at Sotheby's.

"cobs," 40 variously-shaped gold ingots and bars, and two gold boxes with a total gold weight of over 200 pounds. The entire treasure is estimated at \$2.5 to \$3 million. Individual gold coins are estimated at around \$1,000.

On sale March 24-25 at Sotheby's, New York. Contact: Paul Song, 212-606-7391.

"Atlantic Ten" 1865 World Championship Team Photograph, Sotheby's, New York

From the days of zero-figure baseball contracts: the team photo of the 1865 World Champions, the Atlantic Ten. Nineteen years after the first recorded baseball game, this Brooklyn-based team of businessmen, lawyers, architects—regular guys—went 17-0 to win the National Association of Base Ball Players league championship. They did it again in 1866 and 1870.



*This team had balls; bats, too.
Earliest known photograph of
championship team, at Sotheby's.*

According to the Baseball Hall Of Fame in Cooperstown, N.Y., the Atlantic Ten has been nearly forgotten by baseball historians, who mark the beginning of the game with the first professional teams founded in 1869. But the Atlantic Ten—coachless and playing with bats probably

made from wagon tongs—ruled in their day. No Jose Canseco played on this blue- and white-collared team. Except for one player named Pierce who is credited with introducing the bunt to the sport.

On the block is the earliest known photograph of a championship team. (The only other photo of this team is now in the National Baseball Library.) In its original frame with new matting. In near-mint to mint condition. Estimated at \$50,000-\$60,000.

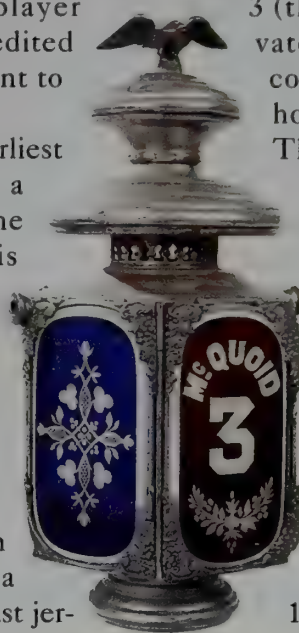
Also on the block in the sports memorabilia sale on March 13 is the last jersey worn by Mickey Mantle (\$70,000-\$80,000) and the T206 Ty Cobb baseball cards circa 1910 (\$6,000-\$8,000). Contact: Rob Levine, 212-606-7424.

Fire Engine Lamp, Eldred's, East Dennis, Ma.

This late 19th-century McQuoid 3 (the third truck in the privately owned McQuoid fire company) lit the way for a horse-drawn steam engine.

This probably helped fight fires in the city of Boston, since it is being sold by a collector from Hull, Mass. Eighteen inches tall and with an eagle finial, this lamp is silver-plated with engraved blue and red glasses.

Estimate: \$1,800-\$2,200. Also on the block: firemen's badges, helmets, parade belts, 19th-century fire prints, including the 1835 Great Fire Of New York. At Eldred's Fire Collectibles auction on April 1. Contact: Judy Machon, 508-385-3116.



*Burn, baby,
burn: an 18th-
century fire
engine lamp at
Eldred's.*

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THE INSATIABLE SHOPPER

VISITS... *Miami*

Consistency may be the hobgoblin of little minds, but Miami's trendy South Beach is an exception. The Art Deco continuity has With-Its flocking to the Sun and the Sand and the Scene and the Style. Your Insatiable Shopper joined them with her

own favorite S-word in mind.

It probably won't translate back home, but if you're determined to pick up some little artifact, **Flash-backs (1)** is crammed with "twentieth-century junkie"—crouched panther lamps (\$75), pink poodle figurines (\$38), and a \$125 World's Fair tripod stool. "All day long," complains proprietor Evan Bernstein, little old ladies gape at the price tags moaning "oh my God, I threw one just like that away." (1143 Washington Avenue; 305-674-1143.)

Serious Art Deco-rators, head to shabby Lincoln Road, known in the earlier thirties heyday as the "Fifth Avenue of the South," and now slowly reenergizing into a mall.

At **Bolero (2)** the inevitable rattan furniture includes the standard four-band construction, plus finer pieces made with up to eight bands of bent bamboo. Owner Andre Kaas points out the different designs: curvy "Pretzel," angular "Godfather," and thin, reedy "Plantation" styles. (934 Lincoln Road; 305-534-3759.)

Florida Artery (3) caters to 20th-century connoisseurs who are

"fashion forward and not weak at heart." Apparently that includes Madonna, Barbra, and Elton, who are said to have come here for the likes of classic Eames chairs in green leather, calfskin, and plywood (\$650-\$2,000) and Alvar Aalto tea carts (\$3,500). A massive oak and redwood Frank Lloyd Wright dining table with twelve matching chairs can be had for half a million dollars. (657 Lincoln Road; 305-532-0092.)

Smocking and shocking are the

A totally different South Beach look is the raucous style at **Elements Gallery (5)**. There are dishes, frames, lizard wall hangings which Erich Emmenegger has smothered in rampant patterns using the brightest colors and the squiggles of swearing #"?**^|>!!

Also here are Jim Steuerlein's whimsical cupboards: towering sunflowers, indoor outhouses, a curvaceous six-foot redhead whose pouting lips, sunglasses and cigar (!) all conceal hidden drawers (\$1,200). (661 Washington Avenue; 305-534-3815.)

Swagged with gold tassels and wire mesh, **Starr Hagenbring**

Studio (6) features items "that craftsmen have taken the time to think out as useful and practical." To Starr, that's notebooks from Nepal with flowers pressed into the paper (\$26), Japanese "Gold" triangle powder incense (\$10), opalescent cobalt tumblers (\$30) and reptile pouch handbags with slide-up tops (\$100).

Starr herself handpaints vintage tuxedo jackets. Alice and the Mad Hatter, Georgia O'Keeffe skulls, and

two S-words at **Roland (4)**, also on the mall, a clothing store for children. Mme. Liliane Roland's kiddy creations are intricately detailed by hand and sold at prices so low the Insatiable Shopper was stunned. The handmade hundred-percent cotton booties (\$8), pink rosette and butterfly dress (\$66), and chiffon-ruffled cotton knit romper (\$50) may be the best buys in South Beach. (728 Lincoln Road; 305-531-0130.)





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the Michaelangelo "Creation" (\$450-\$1,000) embellish extravagant dress-up one-of-a-kinds. (414 Espanola Way; 305-531-7472.)

And dress up, the "Club Look," is the essence of South Beach fash-

ion. From jewel-encrusted corsets to grunge bell-bottoms, basically in black, often leather, whatever Madonna is wearing next—it's found here first.

For an overview, go to the

Front Page (7), a supermarket of trends—the biggest selection of crocheted body suits (\$49), Sandcastle mesh metal belts (\$85), Chambers fringed and sequined denim vests (\$235), little granny

sunglasses, and the mandatory clunky "Doc Martens" \$100 for shoes up to \$210 for zippered motocross riding boots. (1127 Washington Avenue; 305-532-5494.)

Marie Luce works in an agency booking models, and in her store she dresses them, selling her own designs in a shop just off the beach.

Marie Luce (8) sells sleeveless pink gingham sundresses with big puffy bows (\$200), and pouch pocketed black and white daisy dresses. Flounced, pastel-plaid, silk taffeta cocktail gowns and "Jackie Kennedy" skimmers are authentic local fashions. (1200 Ocean Drive; 305-532-2991.)

Prince of Wales dress suits with zipper pockets (\$595), green and orange zippered polo shirts (\$145), and sleeveless vests—made of rubber (\$120), are what the owners of **Magazine (9)** describe as classic men's clothing "with a twist." Lenny Kravitz, Ray Sharkey, and Anthony Perkins are said to have indulged their clothing quirks here. (229 8th Street; 305-538-2702.)

To update without overspending, **Meet Me In Miami (10)**. Adapting some of the newest looks Debbie Ohanian whips up iridescent evening coats (\$42), Lycra ribbed bell bottoms with bell sleeve wrap tops (\$130), and slit-to-the-thigh bell bottom pants (\$110). All, like her polyester "Versace" pull-on pants (\$75), at affordable prices.

There's a nook of "Sex Sells" with strapless corsets, power pasties, and full feather boas. Along the back in a chartreuse-and-purple minisalon Rick Morrata will transform your hair and Sandee Saunders your make-up on the spot. (1201 Washington Avenue; 305-538-8780.)

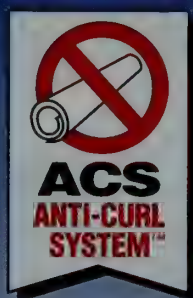
Head down the street to dinner at **Cassis (11)** for snapper and shiitakes steamed in parchment. Founded by François Latapie, formerly with New York's Le Cirque, it's this season's restaurant hit. (764 Washington Avenue; 305-531-7700.)

Are you all decked and Art Decoed out? Oh, yes-s-s-s! 

—SHARON KING HOGE

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1



2



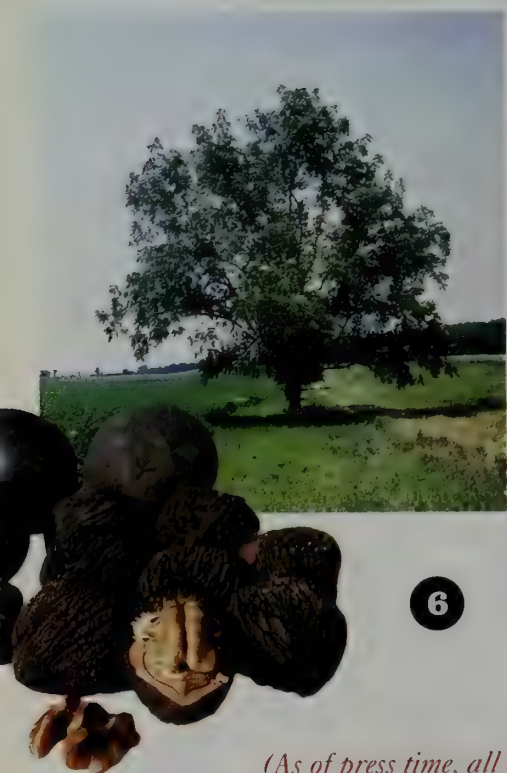
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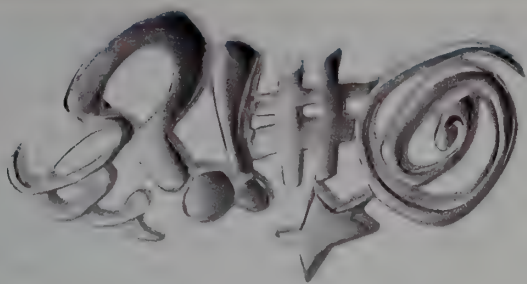
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(As of press time, all items were available; however FYI can't guarantee that they will be if all of you order the same thing at the same time.)

5





7

Beware the Ideas of March.

Unless those ideas are executed in ways that are absolutely made to (mail-) order

1 No, aromatherapy isn't just "spa humbug." And here's a quick way to keep track of what those herbs and spices actually heal—the *Aroma Therapy Decoder*.

Item #54021\$10
The Natural Choice 505-438-3448

2 As every golfer knows, clean balls mean better performance. This *Golfer's Knife* is a Swiss Army adaptation with spike tool, divot tool and groove cleaner.

Item #1114\$39.95
Freedom Works 800-377-8080

3 Just how drunk were you? Well, answer that question precisely with the *High Tech Portable Alcohol Breath Tester*. This handy device will tell you in 10 seconds whether or not you should be getting behind the wheel or calling a taxi instead.

Item #910\$79.95
Seponix Corp 800-237-4590

4 Here be dragons...and dragons and dragons. *Dancing Dragon* purveys dragons exclusively, in posters, pendants, clothing, and sculptures like this one-of-a-kind Mexican dragon with re-arrangeable features.

Item #FL 105\$50
Dancing Dragon.....800-322-6040

5 For those who like their films rare, the TLA Film and Video Guide is the kind of trove to spend serious time browsing in (and ordering from). Over 7,000 selections, with an

extraordinary range of foreign titles. Prices vary.

TLA Film and Video Guide ...800-333-8521

6 Plant: one black walnut tree. Wait: 4-5 years. Harvest: savory black walnuts for pies, cakes and snacks. Enjoy (tree and yield).

Item #1616-111 (3-4 ft.)\$6.25
Gurney's Seed & Nursery 605-665-1930

7 Now you don't have to (delete) your expletives—wear them proudly on your suit or blouse with this sterling silver pin. \$120 (as are the matching earrings.)

Ancient Echoes 312-337-7733

8 When it comes to Balducci's pasta, no one ever says, "Basta!" The owners tell us their selection of wild mushroom ravioli, lobster agnolotti and cheese tortelloni isn't pasteurized, which they say robs pasta of flavor and freshness. (One pound of each.)

Item #4146.....\$30
Balducci's 800-225-3822

9 Not just cufflinks, milord—"crystal gamebird intaglios with 18ct gold cartridge links"—from the incomparable Holland & Holland. Just don't lose them. £1,450 (about \$2,100).

Holland & Holland ...011-44-71-499-4411

10 That horrible scratch in "Michelle"? That sticking spot in "Sgt. Pepper's"? No more, when you retire your Beatles' LPs and trade up to a complete set of 16 CDs, digitally remastered and including some rare, little-known Fab Four material. (Other rolltop-boxed sets of Sinatra, Nat King Cole, Judy Garland and Les Paul available.)

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8



9



10



I'M A DRINKING MAN. For me it's a pleasure, and I like to share that pleasure with others who drink. When I say drink, I don't mean tickly water or blushing wine at a chatty party; I mean whiskey on the porch stoop with a friend. I mean a private moment, a quiet ceremony of appreciation.

I'm a letter-writing man as well. There aren't many of either category left, I know, but that's all right. An evening on the stoop with a friend and a jug is like a correspondence; you are free to lie all you want and still be believed; you can talk about what you please to an audience of one; you can relish a companionable silence.

In a letter to Charles Green Shaw, H.L. Mencken, who probably would have preferred a hearth to a stoop, wrote appreciatively about his pleasures.

drunk for your sake, which is more than I die for you.

Rich. Steele

Robert Burns said that "Freedom and Whiskey gang thegither." Both are dangerous, as Dylan Thomas certainly knew. Three years before his death he confided the following in a letter to a friend, as he might have done over a glass.

"Yes, I am frightened of drink too. But it is not so bad as, perhaps, you think: the fear, I mean. It is only frightening when I am whirlingly perplexed, when my ordinary troubles are magnified into monsters and I fall weak down before them, when I do not know what to do or where to turn. When I am...anywhere I like, and am busy, then drink's no fear at all and I'm well, terribly well, and gay, and unafraid and full of other nicer nonsenses, and altogether a dull, happy fellow only wanting to put into words, never into useless, haphazard, ugly, unhappy action, the ordered turbulence, the ubiquitous and rinsing grief, the unreasonable glory of the world I know and don't know."

*Yours sincerely,
Dylan Thomas*

Mail Bonding

December 2nd [1927]

My favorite drinks, in order, are: beer in any form. Moselle, Burgundy, Chianti, gin and ginger-beer, and rye whisky. I use Swedish punch only as a cocktail flavor. I dislike Scotch and seldom drink it. It makes me vaguely uneasy. I also dislike Rhine wine, save the very best. I never have a head-ache from drink. It fetches me by giving me pains in the legs. When I get stewed, I go to sleep, even in the presence of women and clergymen...

I drink exactly as much as I want, and one drink more.

Sir Richard Steele, of *Tatler* and *Spectator* fame, wrote to Mrs. Scurlock, who would soon become his second wife. Here, as often happens, drink and love get confused; or do they?

*Saturday night, Aug. 30, 1707
Dear Lovely Mrs. Scurlock,*

I have been in very good company, where your health, under the character of the woman I loved best has been often drunk; so that i may say that I am dead

In wine is often truth; in too much wine is often too much truth, even for Samuel Taylor Coleridge. Drinking with an audience greater than one is dangerous, but damage can be repaired in the privacy of a letter.

8, Monday Morning

Dear Godwin,

The Punch after the Wine made me tipsy last night—this I mention, not that my head aches, or that I felt after I quitted you, any unpleasantness, or titubancy—; but because tipsiness has, and has always, one unpleasant effect—that of making me talk very extravagantly & as when sober, I talk extravagantly enough for any common Tipsiness, it becomes a matter of nicety in discrimination to know when I am or am not affected. An idea starts up in my head—away I follow it thro' thick and thin, Wood & Marsh, Brake and

**On the manifest,
manifold pleasures
of drinking**

.....

BY PETER SCOTT

Briar—with all the apparent Interest of a man who was defending one of his old and long-established Principles—Exactly of this kind was the Conversation, with which I quitted you—I do not believe it possible for a human Being to have a greater horror of the Feelings that usually accompany such principles as I then supported, or a deeper Conviction of their irrationality than myself—but the whole Thinking of my Life will not bear me up against the accidental Press & Crowd of my mind, when it is elevated beyond it's natural Pitch.

Your's with affectionate Esteem,
S.T. Coleridge

Taken to extremes, Freedom and Drink can lead to embarrassment. Here's Charles Lamb to Dr. Asbury the morning after a party at Asbury's, in the spring of 1830.

Dear Sir,

...My sister has begged me to write an apology to Mrs. A and you for disgracing your party; for every one that was not drunk (and one or two of the ladies, I am sure, were not) must have been set off greatly in the contrast to me. I was the scapegoat. The soberer they seemed.

But still you will say...that it is not a seemly sight for an old gentleman to go home pick-a-back. Well, may be it is not. But I never studied grace. I take it to be a mere superficial accomplishment. I regard more the internal acquisitions. The greater object after supper is to get home, and whether that is obtained in the horizontal posture or perpendicular (as foolish men and apes affect for dignity), I think is little to the purpose. The end is always greater than the means. Here I am, able to compose a sensible rational apology, and what signifies how I got here? I have just sense enough to remember that I was very happy last night, and to thank our kind host and hostess, and that's sense enough, I hope.

Charles Lamb

Some people say that we attribute too much to the benign influence of drink. This may have been the case aboard a train to Berlin in July of 1876, when Fyodor Dostoevsky offered some homeopathic relief.

My dear friend Anechka,
.....an extremely rich and respectable-looking German started vomiting and he vomited all the way to Berlin. Out of the window, it goes without saying. All of us, six people, tried to be helpful and everyone offered some advice. One suggested that he should drink as much beer as possible, and so, at the first stop he leaped out and filled himself with beer. It didn't help. I advised him to try some brandy. "Brandy!" the man cried out, "that is just what I was thinking myself!" He jumped out at the next stop and had a drink. The advice continued...Finally, the German Khlestakov suggested he try champagne, but by that time we were already getting close to Berlin and the fellow said that, as soon as he got to his hotel in Berlin, he would certainly order some champagne..."

F. Dostoevsky

Hemingway, another believer, was neither modest nor constrained in his praise of taking a drink. In 1935, he closed a letter to Ivan Kashkin with the following testimonial.

P.P.S Don't you drink? I notice you speak slightly of the bottle. I have drunk since I was fifteen and few things have given me more pleasure. When you work hard all day with your head and know you must work hard again the next day what else can change your ideas and make them run on a different plane like whisky? When you are cold and wet what else can warm you? Before an attack who can say anything that gives you the momentary well being that rum does? I would as soon not eat at night as not to have red wine and water. The only time it isn't good for you is when you write or when you fight. You have to do that cold. But it always helps my shooting. Modern life, too, is often a mechanical oppression and liquor is the only mechanical relief. Let me know if my books make any money and I will come to Moscow and we will find somebody that drinks and drink my royalties up to end the mechanical oppression. ☐

PETER SCOTT is a writer living in Chagrin Falls, Ohio.



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From
The Killer Angels
By Michael
Shaara

The old man was riding the gray horse across the open ground in front of the trees. He had taken his hat off and the white hair and the unmistakeable white head were visible from a long way off. He was walking the horse slowly along the ground among the first rows of dead where the cannon had begun to take them as they stepped out of the trees, and the retreating men were slowed at the sight of him. Longstreet stopped. The old man reined up and stood for a moment immobile, head turned eastward toward the enemy, the gray hat on the horn of the saddle. He sat there motionless as a statue

and the men coming back began to turn toward him. He sat looking down, talking to them. Longstreet stood watching him. He knew that he would never forgive the old man, never. He stood paralyzed holding the rifle and tears were running down his cheeks. The old man saw him and began riding toward him. Longstreet could hear him: "It is all my fault, it is all my fault," and men were already arguing with him and shaking their heads in rage and shame, but Lee said, "We shall rest and try it again another day. Now you must show good order. Never let them see you run." ■

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Deep pockets revisited: suing Mom • What next? Vintage olive oil

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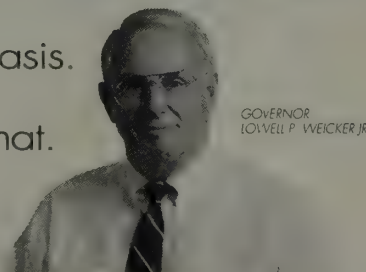
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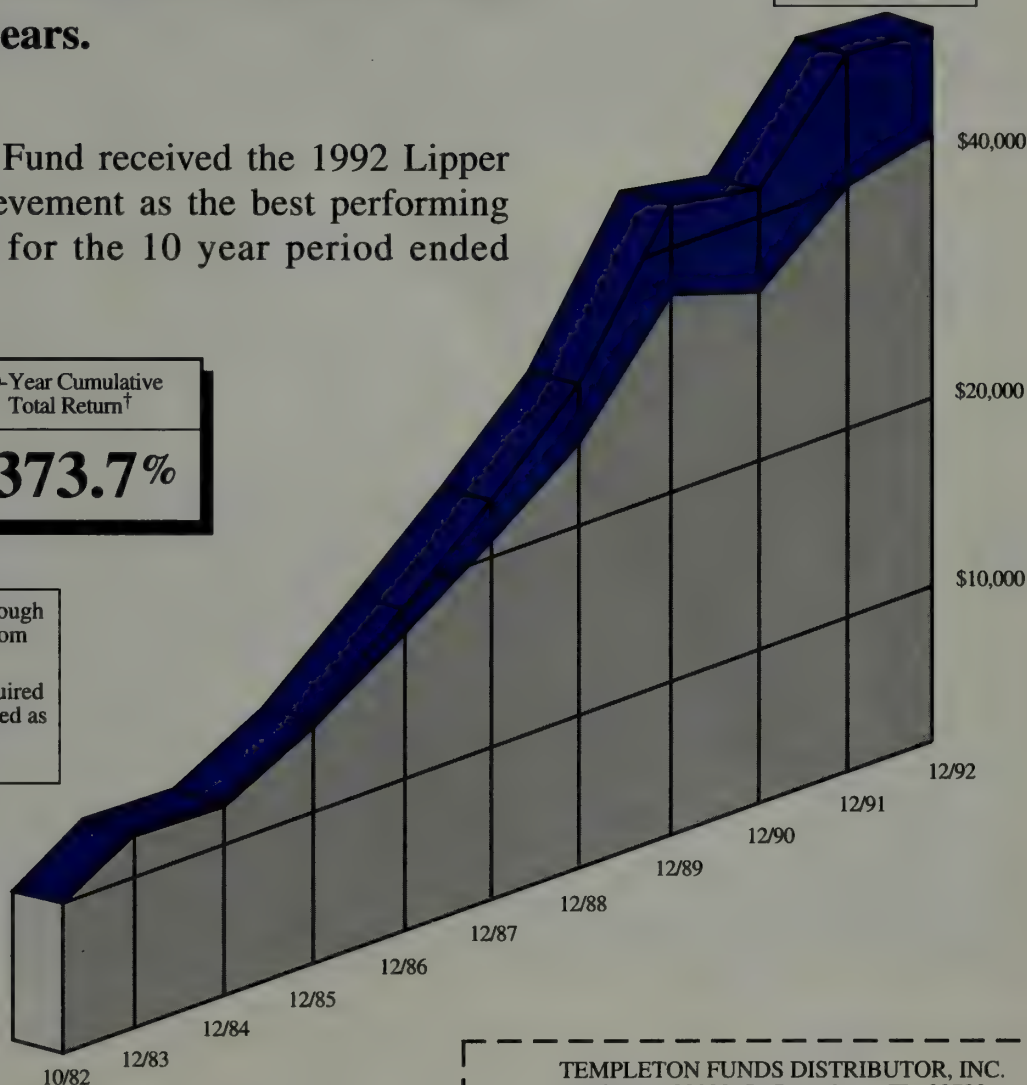
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Of Inc.'s and swaptions

UNTIL the early 19th century virtually all businesses were family proprietorships. If the business went under, so did the family, for it was legally responsible for the debts. The acceptance of limited liability companies enabled investors to shift some of the risk of insolvency to creditors. It also made shares easily transferable and therefore more liquid. Now it was possible to mobilize the huge sums needed to build railroads and giant steel mills. (I am indebted for some of this historical insight to Professor Richard Sylla, a financial historian at New York University's Stern School of Business, and to Reporter Amy Feldman.)

In this issue Robert Lenzner and William Heuslein compare the rapid spread of synthetic securities—options, futures and swaps—with the earlier spread of the Inc.'s. These derivatives take risk-shifting and liquidity several steps further, and visionaries even dream of the day when derivatives will hedge companies against downturns in the economy. World-shaking scandals attended the spread of limited liability—the South Sea Bubble, Credit Mobilier, Kreuger & Toll. There may be similar disasters as derivatives come to dominate the capital markets. But there is no going back. “The age of digital capitalism” starts on page 62.



Bob Lenzner

Who's prejudiced?

FORBES recently demonstrated as baseless federal charges that banks routinely discriminate against minority mortgage-seekers (“The hidden clue,” *Jan. 4*). We pointed out that if blacks were treated more strictly than whites, blacks would certainly show lower default rates since they were required to be better risks in order to get a mortgage. But default rates among blacks and whites are roughly equal—proof that different skin colors get similar credit treatment.

Imagine our disgust when we received a letter from Deputy Comptroller of the Currency Stephen Cross granting our point about equal default rates but responding lamely that perhaps the banks were quicker to foreclose on blacks. The federal position seems to be: Never mind the facts; hang the bastards. Shortly thereafter articles appeared in the press saying Treasury Department bank examiners would soon “adopt tougher procedures to keep national banks from discriminating on the basis of race when they approve home mortgages.” Does the government want banks to so loosen credit standards for blacks that they default more frequently—thus harming both blacks and banks? Apparently. If anyone is prejudiced here it is the government.

James W. Michaels
Editor



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Oh, we of little faith!

AFTER TAKING OVER as chief executive of Colgate-Palmolive Co. in 1984, Reuben Mark shook up what had been a sleepy company, and its stock rose from under 20 to 74 by early 1991. But FORBES was skeptical. Mark's success had come from fixing



Jodi Buren
Colgate-Palmolive
Chief Executive
Reuben Mark
**Flexing market-
ing muscle
in high-margin
products.**

yesterday's problems. Colgate needed new products, what with domestic sales flat and competition heating up internationally (*Mar. 18, 1991*).

We underestimated Reuben Mark. Colgate's sales rose 16% last year, to \$7 billion. Excluding a restructuring charge in 1991, profits were up 30%, to \$477 million, or \$2.92 a share. Some of the gains were from last year's acquisition of Mennen Co., but even without Mennen, Colgate's unit volume grew about 6%, thanks in large part to a flurry of new products. Adjusted for a 1991 split, Colgate's stock has risen 70% in just two years.

Credit much of the profit improvement to Mark's strategy of shifting Colgate's product mix away from commodity-type items like detergent to high-margin oral and personal care. Colgate's gross profit margins in 1992 were 47% of sales, versus 39% in 1984. "There is no reason we can't get to the mid-50s," says Mark.

Told you so

TELECOMMUNICATIONS analyst Victor Schnee had some strong advice for the Baby Bells (*Oct. 15, 1990*): Accept competition in your hitherto protected territories. "Is This Man Crazy?" a leading trade magazine asked in a cover story on Schnee.

Not crazy at all. Last month Rochester Telephone became the country's first local phone company to propose that regulators open up its exclusive franchise to competition.

Rochester wants to split into two companies—one to sell retail phone

service, the second to operate the phone network. The latter would sell wholesale services like switching to all comers, including its sister company and possibly cable TV operators.

A few weeks later Ameritech, the Chicago-based holding company for five Great Lakes Bell companies, told regulators it wants roughly the same thing. However, Ameritech conditioned its offer on its getting the right to enter the long distance business.

Schnee, who served as a strategic adviser to Rochester Telephone, says that whereas the Rochester proposal could be implemented by early 1994, the complex legal and regulatory issues involving Ameritech and its bid to enter the long distance business could take years to resolve. Meanwhile, other companies will feel increasing pressure to embrace competition. "The logic of it is so powerful that they're going to find themselves painted into a corner if they don't react," says Schnee. —GARY SLUTSKER

In Rust they trust

IT HAS BEEN a round-trip for investors who bought the stock of Brand Cos. after FORBES ran an optimistic story (*Mar. 2, 1992*) on the \$440 million (sales) industrial maintenance firm based in Westchester, Ill. Softness in its asbestos-removing business helped drive the stock down to 14, from 22 when the article appeared.

But the stock is back to around 20. Waste Management, which, through a majority-owned subsidiary, owns 56% of Brand, is forming the nation's largest firm of its kind, Rust International. After selling its asbestos unit, Brand will merge into Rust.

Another-Waste Management affiliate, Wheelabrator Technologies, will add its engineering, consulting and construction businesses. Another Waste Management unit will throw in its environmental cleanup business. Brand shareholders will get one Rust share for every Brand share.

Chicago Corp.'s James McDonald has a preliminary estimate that Rust will earn \$108 million, or \$1.15 a share, on sales of \$1.8 billion. With Brand's stock at 20½, shareholders have every incentive to vote for the merger with Rust at an Apr. 30 meeting. —CHRISTOPHER PALMERI ■

A man with short brown hair, wearing a blue t-shirt and khaki pants, stands with his hands on his hips, leaning against a wooden post. To his left is the front of a dark vintage car, showing a round headlight. The background is a rustic wooden structure.

“...so I pick up the phone and it's my PaineWebber guy.

He asked about my retirement plans. I said, c'mon, you're about 20 years too soon.

And I didn't think anymore about it. Until I happened to visit my old boss. What an eye-opener. He's sure not living like he used to ...you know, when he was working.

Next day I called my broker back and said, 'What were those questions again, about retirement?'

And we figured out how I should be putting something away now.

I know I'm not going to need that money for a long time. But it sure feels good—dealing with a company that'll be there when I'm ready...and knowing I'll have the kind of retirement I want. Because I have a broker who asked.”

PaineWebber
We invest in relationships.

Norman's conquests?

WILL TEXAS financier Richard Rainwater and Norman Pearlstine, former executive editor of the *Wall Street Journal*, team up to form a new media venture? "Richard and I haven't settled on anything specific," says Pearlstine, 50, who left the *Journal* last year and is now a consultant to two magazines, *Smart Money*, jointly owned by *Journal* publisher Dow Jones & Co. and Hearst Corp.; and *Selling*, a startup by Capital Cities focusing on successful salespeople.

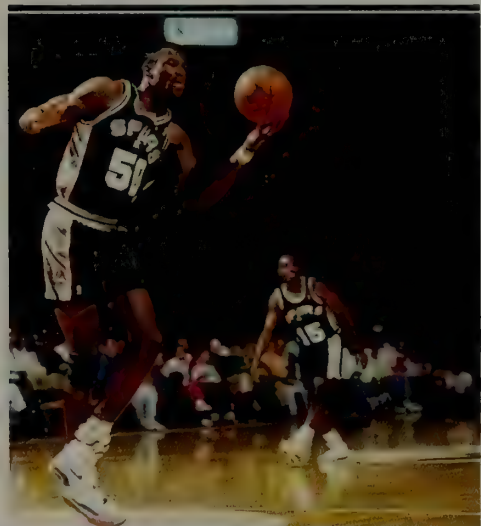
Pearlstine says he and Rainwater have discussed investing in financial and trade publications, as well as in electronic media. Rumors say the pair has looked at *Financial World*, *Euro-money* and *Institutional Investor*.

Pearlstine says he has also talked with media companies, investment bankers and venture capitalists about media projects. But this veteran print journalist says he's chiefly interested in publications as a springboard for getting into electronic media.

—JOHN H. TAYLOR

Home court advantage

IN FEBRUARY Southwestern Bell Corp. moved its headquarters from St. Louis to San Antonio and promptly put down new roots by joining a local group buying basketball's San Antonio Spurs, the city's only pro sports team, for \$75 million. The Spurs' old owner, San Antonio-based car dealer/rancher B.J. (Red) McCombs, has had the team on the



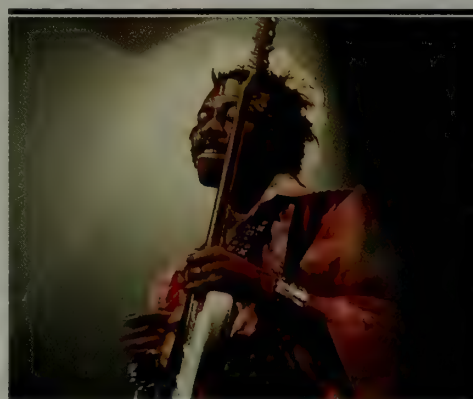
San Antonio Spur David Robinson
Playing for a Baby Bell.

block for almost two years, and locals feared that an outside buyer might move the Spurs, leaving the town holding the bag with an about-to-be-completed \$180 million domed stadium and no team. Also in the buying group: United Services Automobile Association, Valero Energy and Kinetic Concepts.

—CLAIRE POOLE

The ultimate fan

WHAT DO YOU DO in your spare time when you're already a billionaire at 40? Paul Allen, who cofounded Microsoft with William Gates in 1975,



David Redfern/Rena

Jimi Hendrix
A billionaire fan's fantasy.

left the company in 1983 but still owns \$3 billion worth of its stock. Recently, Allen has been building a \$30 million dream home on Seattle's Mercer Island (FORBES, Oct. 19, 1992). He also has indulged his passion for basketball by buying a pro team, the Portland Trail Blazers. His latest pastime is erecting a museum to honor rock guitarist Jimi Hendrix, a Seattle native, whom he saw perform in the late Sixties. Situated near the Seattle Center Coliseum, the structure will house Allen's personal collection of Hendrix memorabilia.

—JULIE PITTA

Blood on The Street

FALLING INTEREST RATES have been a pox on the mortgage securities market. That's because as rates fall, homeowners refinance, which shortens the life of many of these securities. Fitch Investors Service estimates as much as \$75 billion of mortgage-backed securities may be paid off long before expected. This means big losses for

investors and speculators, especially in the roughly \$750 billion market for structured mortgage securities, known as collateralized mortgage obligations (CMOs).

For example, interest-only strips—which are collateralized solely by interest, not principal—issued last year that were expected to have an average life of nine years, now look as if they will be paid down in as little as two years. Even though it will be another month before prepayments actually speed up, some of the more recent issues are already down by about 25%.

The rumor is that as much as half of Salomon Inc.'s \$250 million loss for January-February was from its holdings of interest-only strips. Kidder, Peabody's losses are also rumored to be sizable.

—LAURA JERESKI

Lucky Kentucky

IN THE MID-EIGHTIES Kentucky spent some \$150 million on subsidies and training programs to lure Japanese carmaker Toyota. Good investment, as it turned out.

Toyota's big Georgetown, Ky. assembly plant, opened in 1988, last year paid its 4,500 workers \$185 million (excluding benefits). Workers at 37 Kentucky suppliers to the plant pulled down another \$215 million in wages. All told, the plant has led to the creation of 17,883 new jobs. Toyota, which is doubling the plant's size, spent an additional \$175 million on new construction. Researchers at the University of Kentucky calculate that in 1992 alone the "total output effects" of the plant came to \$1.5 billion—1.9% of the gross state product. The University of Kentucky study estimates that by 1996 the plant will be putting \$1.9 billion into the state economy and spawning yet another 4,800 jobs.

—JERRY FLINT



Toyota's Kentucky plant
Long green for the bluegrass state.



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Craig's snake

SIR: When looking at the cover photograph of Craig McCaw (*Mar. 1*), it may appear that this visionary innovator is an eccentric who routinely completes his attire with a live boa constrictor while plotting to engulf larger corporate prey. Not so!

In January, 130 McCaw Cellular executives contributed two days to Habitat for Humanity to assist in



McCaw with young friend
Prize possession.

reconstructing homes devastated by Hurricane Andrew. As we worked, a young Haitian boy rode through his impoverished Homestead neighborhood on a dilapidated bicycle. Flashing a smile, he thanked us for being there. His prize possession was the snake he placed on Craig's shoulders.

—MAGGIE WILDEROTTER

President

California/Nevada Region

McCaw Cellular Communications
Sacramento, Calif.

Prophecy vs. subscription?

SIR: Re "Snake eyes" (*Mar. 1*). Any new industry will have its speculative ups and downs, but 1993-94, I predict, will continue to be a growth period as new casinos/riverboats open and the revenues are recorded. And I'll wager you a subscription on my "prophecy."

—STEPHEN P. GROGAN

Editor/Publisher

The Grogan Report
Evergreen, Colo.

AAA risk

SIR: Re "Alice in Mortgageland" (*Mar. 1*). Unfortunately, money managers and individuals can be

lulled into complacency by the "AAA" credit quality of federal agency collateral behind mortgage-backed bonds.

—BYRON D. KLAPPER

Publisher

Fitch Investors Service, Inc.
New York, N.Y.

SIR: There are thousands of honest, well-informed brokers who are selling CMOs to hundreds of thousands of investors who are very happy with their investments.

—GARY PETERS

Senior Vice President

Broker-Dealer Services Division

LaSalle National Bank

Boca Raton, Fla.

Who lost in Pittsburgh?

SIR: The real losers when Blade Communications, publisher of the *Pittsburgh Post-Gazette*, bought and then closed the *Pittsburgh Press* (*Informer, Mar. 1*) are the people of Pittsburgh, who lost a second voice, the hundreds of *Press* employees who lost their jobs, and the shareholders of E.W. Scripps (*Pittsburgh Press*) who were short-changed on their investment. We were prevented from being awarded the deal because of fraud and deceit.

—RICHARD M. SCAIFE

Publisher

Tribune-Review

Greensburg, Pa.

Piper Pitt

SIR: Re "Who pays the piper" (*Feb. 15*). I have been amused by puff pieces and interviews with Mr. Pitt where he extols his common man upbringing and concern for the little guy. As my personal experience and your article indicate, Mr. Pitt more often sides with a management that can afford his billing rate.

—ERIC M. HEINER

Charlottesville, Va.

Missed by a mile!

SIR: Re "The reluctant entrepreneur" (*Feb. 15*). You missed by a country mile when you said Renishaw probes make machine tools accurate to within 0.005 inches. The real number is 0.0005 inches, and for many opera-

tions, David McMurtry's probes help control machines to 0.0001 inches and better.

—JOHN A. BOSCH

Vice President & General Manager
Giddings & Lewis
Dayton, Ohio

We erred.—ED.

Quality control

SIR: Re "Good-bye Dewey decimals" (*Feb. 15*). No librarian wants to "control knowledge" per se, but librarians do care about the quality of information delivered. Networked information technology is evolving, and many new services are experimental and incomplete. Still, the best of these nascent services were designed with the help of experts in organizing information—i.e., librarians.

—RICHARD WIGGINS

Gopher Coordinator

Michigan State University Computer

Laboratory

East Lansing, Mich.

Affirmative action

SIR: "When quotas replace merit, everybody suffers" (*Feb. 15*) is a superior contribution to public understanding that there is no free lunch. [But while statistical group comparison unquestionably serve the redistributive agenda by driving employers to quotas, I cannot agree that the Americans with Disabilities Act "is also a quota bill." The ADA simply requires "reasonably accommodating" a disabled individual and does not mandate affirmative action for groups.]

—EVAN J. KEMP JR.

Chairman

Equal Employment Opportunity

Commission

Washington, D.C.

SIR: We've always had quotas, it used to be 100% white males.

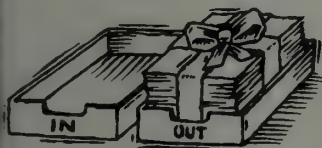
—PATRICK McELROY

Atlanta, Ga.

SIR: To avoid funding a law firm affirmative action program, clients should insist upon prior approval all lawyers assigned to their accounts. Alternatively, businesses may prefer to employ law firms which are to

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Comforting news for cautious investors.

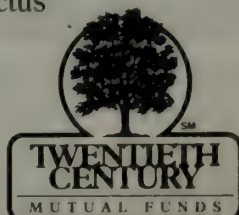
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small to be of interest to the quota enforcement agencies.

—JOHN W. WALL
Scarsdale, N.Y.

SIR: Before the 1960s, *legal* discrimination against nonwhites was practiced in most of America.

—KEVIN B. MARTIN
Santa Fe Springs, Calif.

SIR: If Xerox refuses to hire or promote white males fairly, why don't the white males of this country show a little solidarity and simply refuse to buy Xerox products?

—ROBERT BROWN
San Luis Obispo, Calif.

SIR: Do you genuinely believe that people will lay down their prejudices and make decisions solely on merit?

—JP MILILLI
President
United Capital Group
Chicago, Ill.

Bank mutual funds

SIR: Re "Blowing it" (Mar. 1). Fund performance compensates investors for load charges. And there are strict prohibitions against banks getting their customers to comingle their checking accounts and mutual fund investments.

—JAMES M. SHELTON
Executive Director
Bank Securities Association
Corte Madera, Calif.

Investor's choice

SIR: The market's logical response to different investor needs is to create different pricing structures ("Fee madness," Feb. 15).

More choice is good.
—JOHN E. PETERS
Senior Executive Vice President
Kemper Financial Services, Inc.
Chicago, Ill.

Outdated

SIR: Re "The odd couple" (Mar. 1). Perhaps you should be reminded that WWII ended 48 years ago and German-bashing is no longer the in thing.
—RONALD F. LITZ
Conway, S.C.

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MALE - \$100,000 ANNUITY

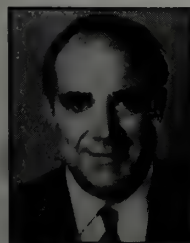
FEMALE - \$100,000 ANNUITY

AGE	RETURN	GROSS RATE	TAX	NET	AGE	RETURN	GROSS RATE	TAX	NET
60	9.2%	\$9,279	\$2,078	\$7,201	60	8.5%	\$8,589	\$1,752	\$6,837
65	10.2%	\$10,228	\$2,086	\$8,142	65	9.2%	\$9,280	\$1,707	\$7,573
70	11.6%	\$11,678	\$2,195	\$9,483	70	10.1%	\$10,173	\$1,546	\$8,627
75	13.4%	\$13,415	\$2,200	\$11,215	75	11.5%	\$11,553	\$1,386	\$10,167
80	16.1%	\$16,145	\$2,389	\$13,756	80	13.5%	\$13,529	\$1,244	\$12,285
85	19.9%	\$19,965	\$2,395	\$17,570	85	16.7%	\$16,749	\$1,005	\$15,744

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Truth is, we are simply business people who understand that the shortest distance between two points is a straight line. Opening our eyes to evolving management techniques and the latest efficiencies that technology offers has put us on that line.

Keeping our eyes open will take us into the future. If some call that being visionary, hey, who are we to argue?



C o n s e c o

"With all thy getting get understanding"

Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*



RESPONSIBLY RESPONDING TO PRESIDENT'S PROPOSAL

SENATOR PHIL GRAMM (R-Tex.) is offering an amendment that is a first-rate counter to the Clinton budget plan. It eliminates the President's suggested new taxes without any increase in the deficit.

Gramm proposes that spending caps established in the 1990 budget agreement be made mandatory, saving \$48 billion. The White House plan as-



sumes that these restraints no longer apply. The senator's proposal would also repeal all of the White House's additional spending programs, which come to \$178 billion. The total savings would be \$226 billion, more than enough to cover the revenue allegedly lost by not enacting the Administration's new levies on personal income, energy and Social Security benefits.

ALL-AMERICAN TAX CUTS

REPUBLICANS (and pro-growth Democrats) should introduce a companion piece to the Gramm amendment that would provide an irresistible alternative to the Clinton package: a reduction in both the Social Security payroll tax and the capital gains levy.

Constructively adjusting the way capital gains are treated would generate enormous revenues (the optimum would be a much lower rate and full indexation for inflation). There are some \$7 trillion worth of gains in old investments. Realizing a fraction of that total would give Uncle Sam tens of billions of dollars.

These moneys would provide more than enough wherewithal to justify whacking away at the 15.3% payroll tax for Social Security. In the past Senate Finance Com-

mittee Chairman Pat Moynihan had proposed slashing this levy. Social Security is currently churning out a surplus of over \$50 billion a year.

Payroll taxes are notorious job killers. A cut would create more work. The lower capital gains exaction would free the capital for new businesses to generate jobs. Remember, when that tax was at its postwar low between 1982 and 1986, 18.7 million jobs were created, including a record number of high-paying ones; 14 million of these came from new businesses.

As a final touch, Republicans should advocate abolishing the penalty that working Social Security recipients between ages 65 and 69 suffer if their salaries exceed \$880 per month.

WE'RE GROWING

THE CENSUS BUREAU recently gave us good news: The number of people living in the U.S. is rising more rapidly than experts forecast just five years ago. America's population will increase this decade by 25 million people instead of 18 million. By the year 2050, the Bureau projects, the U.S. population will be over 380 million instead of a shade under 300 million. That 80-plus million change exceeds the entire population of Germany.

The reasons for the upward projections are women's greater fertility, more immigrants and increased longevity. Women are not having

fewer children; they're just having them later in life. Even without immigration, the U.S. would be the only industrial nation where births are sufficient to replace those who die.

More people means more prosperity in a free-market democracy. We'll need more houses, cars, computers, food, clothes, services, etc. In an environment of freedom, human ingenuity blossoms, and all of us benefit.

Look at this table. There are twice as many people living here as in 1930. Yet real per capita income today is more than three times what it was then. Contemplate that

Year	Population (thousands)	Per capita disposable income*
1930	123,188	\$ 4,402
1940	132,122	4,747
1950	151,684	6,214
1960	180,760	7,264
1970	205,089	9,875
1980	227,715	12,005
1990	249,961	14,068

*1987 constant dollars.

Source: Bureau of Economic Analysis, Commerce Dept.

for a moment: The average American worker earns, even after you adjust for inflation, almost four times the income he or she did less than a lifetime ago.

There is a geopolitical factor as well. China is beginning to get its economic act together. Whether it evolves into a peace-loving democracy is very much open to question. In fact, a number of military experts fear Beijing may become our adversary. A would-be

aggressor would be less tempted to meddle with a U.S. that has a vibrant, growing population than with one whose numbers are declining and whose people are aging quickly.

Progress, of course, does not come without price. There will be strains as our numbers grow. But our history clearly demonstrates that an expanding population is more a boon than a bane.

THE MEXICAN STOCK MARKET

has turned from hotbox to icebox. Shares have fallen 15% over the past 12 months, after almost tripling in the previous two years.

The prime factor turning the Mexican Bolsa from princess to charwoman is the uncertain fate of the North American Free Trade Agreement. The Administration's vibes concerning NAFTA are negative. Egged on by Congress' leading protectionist, for example, Trade Representative Mickey Kantor verbally pistol-whipped Mexico's commerce secretary during his recent visit to the U.S.

U.S. failure to ratify would humiliate President Salinas, cutting the ground from under him and his reformers. The U.S. would also be a big loser. Our exports to

Mexico in recent years have tripled, creating thousands of high-paying jobs.

While the fate of NAFTA hangs in the balance, the Salinas government should make further free-enterprise reforms. That way the economy would be stronger and more able to withstand any setback. Principally, Mexico should lower taxes on its middle class, now taxed at 32% on around \$6,000 annual income. It should also allow gains from sales of businesses to be treated as capital gains for tax purposes instead of as ordinary income. The financial markets would quickly recognize that these changes would make for a more vibrant economy.

Mexico needs such a nudge; its economy advanced very little last year.

TAX WRITERS WATCHING TOO MUCH TV

THE CLINTON recovery package disallows the tax deductibility of executive salaries in excess of \$1 million, a cap with surefire populist appeal. Yet such a restriction won't apply to entertainers or athletes whose compen-

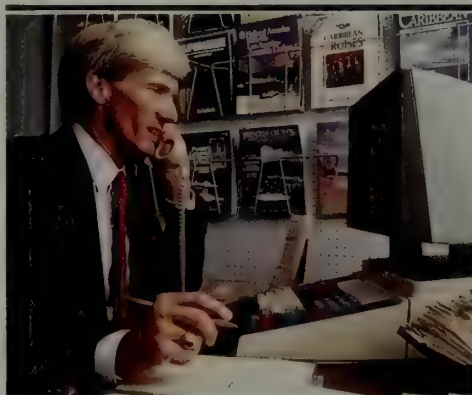
sation exceeds \$1 million.

Kathleen Turner may be more curvaceous than a corporate CEO, but does that justify tax discrimination against business executives?

IGNORANCE IS COSTLY

AIR TRAVELERS may no longer be able to receive information about upcoming changes in plane fares from their travel agents, thanks to a particularly silly Justice Department lawsuit.

Would you believe that federal trustbusters are accusing our loss-laden airlines of illicitly raising fares by letting travel agents know of future price changes via computer? This "electronic dialog" supposedly signals other carriers to boost their prices as well. Some conspiracy! Last



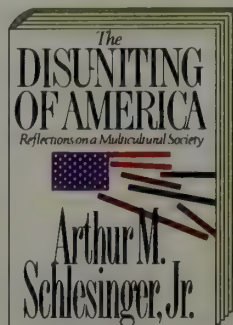
Why is informing the consumer unlawful?

year more people than ever before traveled at lower prices, yet the industry lost \$2 billion.

The predictable result is that by forcing airlines to restrict information about fares, consumers will know less. They will, naturally, take their anger out on the carriers and travel agents instead of the Justice Department, if they buy, say, tickets one day that they could have had at a lower price if they had waited until the next day.

INCREDIBLY DIVERSE MELTING POT

The Disuniting of America—by Arthur M. Schlesinger Jr. (W.W. Norton & Co., \$14.95). Demolishes the arguments and pretensions of those who want to create on our shores the racial and ethnic divisions that are currently wracking portions of Europe, Africa and Asia. These "ethnocentric" advocates have already impacted the curricula of many of our public schools, grossly distorting history. The author ably recognizes the differences between cultural pluralism and ethnocentrism. The genius of American civilization is its ideal of equality. Democracy and civic participation have successfully given millions of people from varied backgrounds a sense of being American.



Schlesinger also hits upon an overlooked phenomenon: the extraordinary dynamism of American culture itself.

Excerpt: *Historically and culturally this republic has an Anglo-Saxon base; but from the start the base has been modified, enriched and reconstituted by transfusions from other continents and civilizations.*

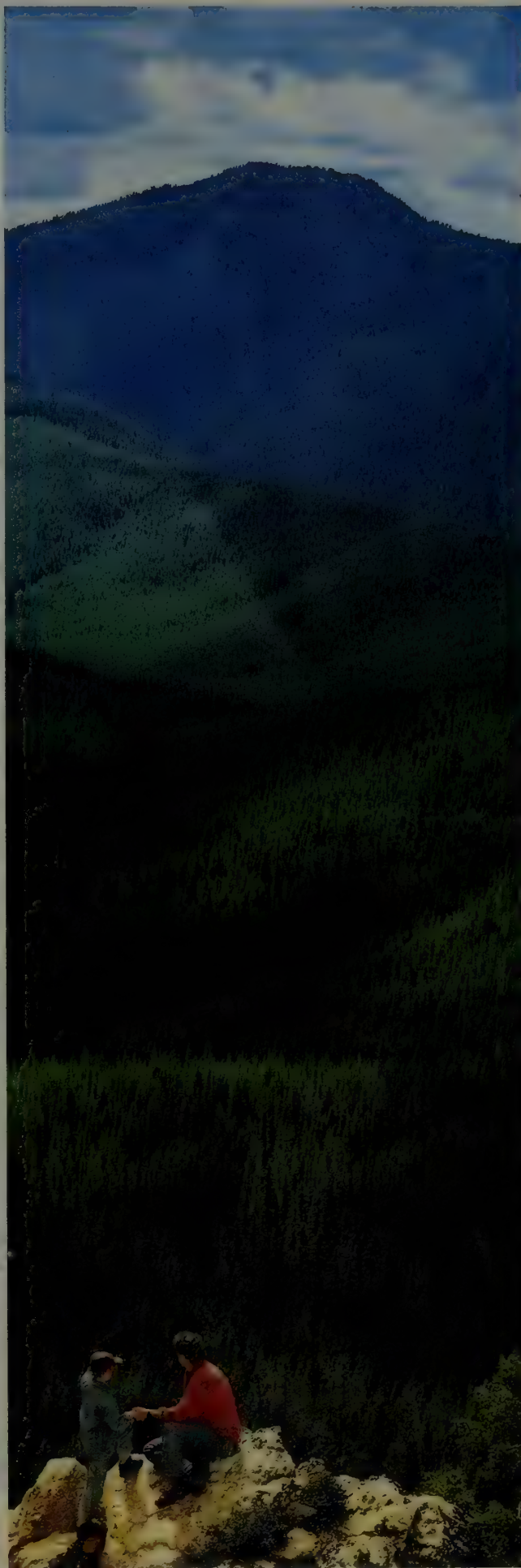
Excerpt: *Let us learn' about those other continents and civilizations. But let us master our own history first. Lamentable as some may think it, we inherit an American experience, as America inherits a European experience. To deny the essentially European origins of American culture is to falsify history.*

"Who's going
to make sure
the trees
will be here
tomorrow?"

"Not an easy question.
But that's what my son
asked the other day.
He's thinking about it.
Just like everybody.
He wants to know if the
trees will still be
around when he grows
up. Well, working for
Georgia-Pacific like I do,
I can tell him we're
doing our part. Planting
new trees by the
millions. Setting aside
land. Making sure
the forests will always be
here. For everybody.
Of course, I can't speak
for other companies
out there. But I
know we're doing
what's right."

Stephen A. Delfs

Steve Delfs
Forester





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V I R G

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Still in the experimental stages, the Video Tumor Fighter was invented by neurosurgeons and physicists at the University of Virginia. And is a product of several forces that have propelled Virginia to the biotechnology front.

Virginia is home to three academic medical centers: Eastern Virginia Medical School, the Medical College of Virginia and the University of Virginia. Over \$132.7 million in medical research is conducted at these institutions each year.

Virginia is located in the biotech corridor of the United States, which runs from Boston to North Carolina. Three biotechnology centers have been established in Norfolk,

Charlottesville and Richmond. The National Institutes of Health, the Food and Drug Administration and the Environmental Protection Agency – the powers that be in biotechnology – are all right next door in Washington, DC.

Not surprisingly, Virginia has the highest concentration of doctoral scientists and Ph.D's in the South – a braintrust 20,000 strong.

Virginia has something else the constantly changing biotech industry needs: financial stability. According to *Financial World* magazine, Virginia, under Governor L. Douglas Wilder, is the best fiscally managed state in the nation. Corporate income taxes have increased only once in 40 years. The state's bond rating remains a constant AAA.

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FB-5

Other Comments

Achoo!

PRESIDENT CLINTON appears to be reverting to his party's traditional tax 'n' spend diet—an impression which is further underlined by his quasi-populist resolve to tax the rich.

One of the oldest adages of international economics is that when America catches a cold, the rest of the world catches 'flu. It would be a pity if Clinton jeopardised the present recovery because of excessive susceptibility to domestic pressures.

—*The (London) Daily Telegraph*

Let Freedom Waves Wave

I HAVE NEVER worked for Radio Free Europe or Radio Liberty, and for that reason can be considered an objective observer of their activity. I regret that both stations may be closed, falling victim to Government budget cuts.

Disarmament, even dictated by budget considerations, should not go beyond reasonable limits. Compared with expenditures for heavy weapons, the costs of maintaining broadcast stations are minimal: They are, indeed, a drop in the sea. And yet it is obvious that those broadcasts are a weapon, a defensive weapon, for in the present period of turmoil every word of correct information deflects tribal, racial and political hatreds.

Radio Free Europe and Radio Liberty have gathered experience that should not be squandered. To deprive ourselves of such a weapon at the moment when the situation in the Balkans alone threatens a major war would mean to fall victim to a dangerous provincialism, and would justify a question about the sensitivity of the President to urgent tasks of foreign policy.

—CZESLAW MILOSZ, winner of the 1980 Nobel Prize for Literature,
New York Times

* * *

WHY CONTINUE the radios, some ask, if they overlap with the Voice of America? There is no overlap. The task of VOA is, to put it inelegantly, to "sell America." The assignment of the Munich radios is to act as a surrogate source of information in countries where the media are not yet free—or where their freedom is threatened. VOA has many merits, but its direct political impact in Russia and Eastern Europe is almost nil, whereas that of the Munich radios is immense.

Today Eastern Europe and Russia face a critical period that may decide their fates and that of the world for years to come. To a certain extent America can influence the current

struggle, but time is running out fast.

—WALTER LAQUEUR,
Wall Street Journal

If there is only a one percent chance of success in a project, a true businessperson sees that one percent as the spark to light a fire.

—*Every Street Is Paved with Gold*,
by KIM WOO-CHOONG,
founder and chairman, Daewoo

Good News for Truants

EACH YEAR some 650,000 entrepreneurs start businesses. And each year about 60,000 of them fail. Maybe fewer would if they pre-tested their "entrepreneurial quotient" with *What's Your E.Q.?*, a tongue-in-cheek guide published by Northwestern Mutual Life. It advises that if you were a stubborn child, didn't do well in school and were easily bored, you should start writing your business plan. But if you hate to borrow money, worry about other people's opinions and like to get a full eight hours' sleep, it suggests you keep your day job.

—CATHERINE FREDMAN,
Working Woman

Geopolitically Incorrect

FROM THE *Norfolk (Va.) Virginian-Pilot*. CORRECTION:

The map of Europe, Northern Africa and the Arab nations published in Monday's editions contained the following errors: Libya was labeled as the Ukraine; Bulgaria and Romania were transposed; Bosnia-Herzegovina was identified as Bosnia; Montenegro should have been identified as a separate state bordering Serbia; Cyprus and the West Bank were not labeled; Andorra, a country between France and Spain, was not labeled; the Crimean Peninsula appeared twice on the Black Sea; Kuwait was not identified by name, instead the initials of the Knight-Ridder News Service were in its place.

—*The New Yorker*



"It's a reproduction of Winston Churchill's writing desk.
All he does is look at it and smoke!"



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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*



A FEW SPECIFIC OBJECTIONS TO THE PRESIDENT'S ECONOMIC PLAN

CRITICISM OF President Clinton's economic plan is being equated in some quarters with lack of patriotism; therefore, any critical analyst must tread carefully. Unless Congress makes drastic changes, the President's proposals cannot succeed in either cutting the deficit substantially or strengthening the economy.

"What would the critics do?" asks the President. Here is one specific: The Office of Management & Budget estimates that if we make no changes at all in this year's expenditures, current programs will require us to spend \$48 billion more next fiscal year. *And if we make no change at all* in our current tax system, OMB says our revenues will *increase* by \$82 billion. So why not freeze all programs in place, *not* spending the \$48 billion, and use the increased revenue to reduce the deficit?

The President's proposed spending increases start with \$16 billion for short-term stimulus to an economy that in the fourth quarter of 1992 posted the largest gain in four years. Factory output also reached a new peak this January, and in February new claims for unemployment benefits dropped.

The \$16 billion is supposed to create 370,000 new jobs, rising to 500,000 full-time jobs by 1994. It is difficult to see how this can happen when 58,000 of those jobs are to come from highway construction—much of which will take place anyway—and 188,000 from the summer jobs program, which, by definition, is not permanent.

More unneeded short-term stimulus would come from an investment tax credit that gives up over \$12 billion in revenue. Any real new corporate investment it might induce won't reach the economy for at least another two years—when we will need it even less than we do now.

Clinton's \$160 billion long-term "investment plan" proposes new spending on familiar Democratic programs, such as public works, job training, "improving education," etc. A few examples:

- \$165 million in additional Small Business Administration loans, although OMB now estimates that \$4 billion of its current loans will be defaulted.

- \$345 million for highway sensors designed to help motorists avoid traffic jams.

- \$646 million more for high-speed rail systems.

- \$246 million for a tree planting initiative.

- \$69 million to be spent on EPA's "green" programs.

The President has asked those wanting deeper spending

cuts to be specific. Certainly one of the ways to start would be to spend *neither* the \$16 billion for the short-term *nor* the \$160 billion for the long-term investment plan.

Increasing the revenue from Social Security and Medicare by lifting present ceilings on income subject to those taxes and imposing price controls does not reduce the scope or size of those programs—or their potential for continued growth. All it does is require more money from taxpayers. About \$65 billion of the Clinton plan's estimated "cuts" are based on "streamlining" and "better management" of government, which have proved chimerical at best in the past. The President could make cuts and realize actual savings by such means as raising the age for Social Security eligibility, by delaying planned automatic increases in benefits and by eliminating or reducing the scope of many programs beyond the 11 that he identified as those that "don't work or are no longer needed."

Federal spending could also be reduced by passing the line-item veto and the balanced budget amendment.

The Real Cut Is the Least Wise

Sadly, the only real major reduction in Clinton's economic package is in defense. The President seeks to trim nearly \$88 billion from defense over the next four years. As Martin Feldstein, former chairman of the Council of Economic Advisers, points out, this would reduce defense outlays in 1997 to 25% below the amount needed just to *maintain* today's forces. If in 1996 we had to commit to anything resembling the Gulf War, we simply could not do it with what is left us under this plan. These cuts also require that some 400,000 people from our volunteer force be eliminated. This will not "grow the economy."

Nor will the proposed tax increase requiring 55% of families to pay more overall taxes strengthen the economy. The economy responds far more quickly and beneficially to tax cuts. Tax increases beget changes in taxpayer behavior, which usually involves a successful search for anything that avoids an increase in one's adjusted gross income.

And don't forget the *additional* \$70 billion to \$100 billion, or whatever, that will be required when the Task Force on National Health Care Reform reports in. Rumor has it that this is all to be financed by increased "sin" taxes. Sin on a scale never yet practiced even in this secular nation would be required to finance health care. ■



"I don't think I'll ever want to slow down." *Jean-Claude Killy*

In 1968, Jean-Claude Killy brought home three Olympic gold medals. In 1992, he brought home the Olympic games themselves.

A successful businessman, as well as one of France's best-known sports figures, Killy was chosen to spearhead the drive that brought the Winter Olympiad to his beloved Savoie.

"The training that I went through to become a ski racer proved invaluable to me when I entered the business world, and the same proved true in organizing the Winter Games," Killy says. "As an athlete I learned the value of hours of planning and being able to juggle several projects at once."

Today, Killy faces the hurdles of business with the

same confidence he had on the ski slopes. "Being an entrepreneur isn't easy," he notes, "but I could never see myself doing anything else. I love the excitement, the idea that there's a different challenge waiting every day.

"In life, as in skiing, timing is everything," Killy says. Which is why both on the slopes and off Killy wears a timepiece he can rely on: his Rolex Oyster timepiece.



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Clinton's pro-labor agenda emerges

THE U.S.' extraordinary period of labor peace continued in 1992. Strikes were at their lowest level in 45 years, with just 35 big ones (involving more than 1,000 workers), including 12 in manufacturing, and 5 each in construction, services and local government. Some 4 million days were lost at these larger companies; that's less than 0.05% of the workdays available.

The Midwest saw several of the big strikes, including those at Caterpillar, GM and the Detroit Board of Education, which was struck by the American Federation of Teachers. The largest single strike involved the International Association of Machinists and the nation's rail freight carriers; Congress ordered the union back to work on the strike's second day.

A flood of new law is coming

IT'S AN UGLY THOUGHT, but could that wonderful period of peace be about to end? The Clinton Administration is determined to tilt the table in the direction of the labor unions. Leading the charge is Labor Secretary Robert B. Reich, who has lengthy labor connections (he was one of six founders of the union-funded Economic Policy Institute) and is closer to his President than any labor secretary in history. A Washington joke says he has two things going for him—both of Bill Clinton's ears.

One driving force seems to be to prevent the continued decline in union membership. Membership is down to 16.4 million, from 17.7 million in 1983. The losses have all come in private industry, where just 11.5% of employees are now unionized (against 17% in 1983); over the past decade unions have held on to 37% of federal, state and local government jobs.

Here's a sampling of the pro-union moves:

- President Clinton has signed two executive orders to help organized labor. One reverses a Bush order requiring that government contractors tell employees that they may refuse to pay the part of their union dues used for political purposes. The other permits government contractors to restrict subcontracting to unionized companies.
- Clinton wasted no time signing the family leave bill into law.
- He will sign the striker replacement law the

moment it hits his desk. Representative William L. Clay (D-Mo.) has been frank that his bill banning striker replacements would lead to more strikes. And, to judge from Caterpillar's experience with a bitter five-month strike last year by the well-heeled United Auto Workers, they would be strikes the unions could win. If Caterpillar, one of the country's top exporters, had not been able to use replacement workers, it is quite possible that it would either have had to give in or still be on strike.

■ Secretary Reich is promising that the federal government will reinstate air traffic controllers sacked by President Reagan in 1981 for breaking federal employment law by going on strike.

■ Siding with the AFL-CIO, Hillary Clinton says that paying for health care will not include taxing the value of employees' benefits, since that would interfere with unions' bargaining efforts.

■ Secretary Reich may support a severely toughened occupational safety law. The proposed new OSHA law in effect brands offending employers as criminals, puts unions in charge of selecting workplace safety committees and, in certain circumstances, allows a single worker to stop an operation if he or she feels it to be unsafe.

■ A 10% increase in the minimum wage is in the works, if Secretary Reich gets his way, even though this will reduce the number of entry-level jobs.

The cost will damage competitiveness

AN EARLY INDICATION of just how far this process might go will be the upcoming renegotiation with Mexico of the North America Free Trade Agreement. Companies that close factories in the U.S. and transfer the work abroad may possibly lose some tax breaks.

Even so, just how fast can the Clintonites go with their pro-labor agenda? Their priority, obviously, is the economic package. Reich will create a commission to examine labor law that is a clearly intended time-filler. He has also given a key job (chief congressional liaison) to Geri Palast of the AFL-CIO.

A question to ponder: Will all these pro-union moves undercut that centerpiece of the Clinton program—creating jobs? Small businesses, the main job creators in the past decade, will be the hardest hit by the burdens imposed by such laws as the OSHA reform.

The economy as a whole will bear a heavy cost. OSHA reform alone will cost at least \$51 billion, according to the employer-funded Employment Policy Foundation. Have the Clintons figured out what the new regulations will do to American labor costs and export competitiveness? Probably not.

THE FORBES INDEX

BY ROBERT ROSENSTEIN

The Forbes Index (1967=100)



The index of leading indicators—based on 11 items such as building permit applications, stock prices and a consumer survey—rose only 0.1% from December to January. Other signs of a soft economy: Through the first two months of this year, auto sales were down 1.3%, and new orders for durable goods declined 2.2% in January. But David Cohen, an economist at MMS International, a financial information service firm based in San Francisco, says that the numbers indicate not so much a weakening economy as unusually strong December results.

Other key rates

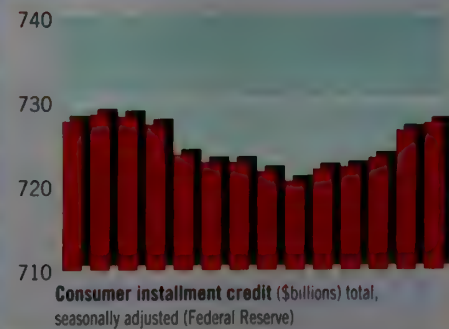
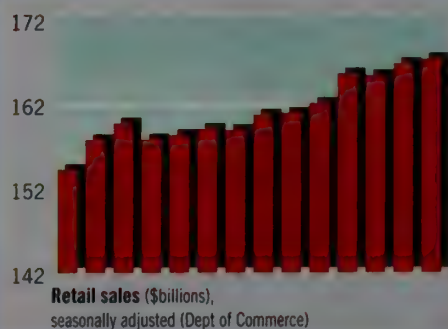
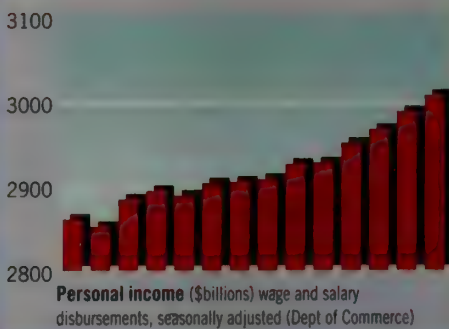
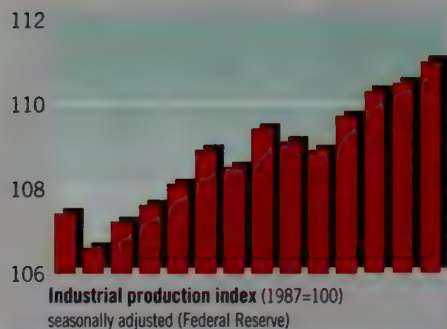
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.0%
Auto sales year to date vs 1992 ¹	Ward's Automotive	-1.3%
Index of leading indicators Jan vs Dec	Dept of Commerce	0.1%
Trade balance 12 months ended Dec 1992	Dept of Commerce	-\$83bil
All-commodity producer price index Dec vs Nov ²	Dept of Labor	3.0%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	4.8%
M2 (3-month change)—annualized growth ³	Federal Reserve	0.1%

¹ U.S.-based manufacturers, excludes imports, as of 2/28/93. ² Wholesale goods. ³ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: The cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total industrial production, new housing starts, personal income, new claims for unemployment compensation, total retail sales, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



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*Competitive data according to RAM Research's Bankcard Update, January, 1993. Optima Cardmembers in good standing receive an Annual Percentage Rate for purchases that's currently 14.25% (16.90% for cash advances). Cardmembers in good standing over a 12-month review period with at least one year of tenure on their American Express and Optima Card accounts who spent at least \$1,000 on the Optima Card during the review period qualify for an APR that's currently 12.00% for purchases (16.90% for cash advances). All other accounts receive a competitive APR that's currently 18.25% for purchases (18.90% for cash advances). All rates are adjusted semiannually based on the Prime Rate as listed in The Wall Street Journal. The annual fee for the Optima Card is \$15 (\$25 for non-American Express Cardmembers). For more information or to apply call 1-800-OPTIMA-6. © 1993 American Express Centurion Bank.



The bombing at the Port Authority's World Trade Center may force the agency out of social engineering and back to basics.

Port Austerity?

By Richard Phalon

THE BLAST that tore through the guts of the World Trade Center in Manhattan will have an unintended side effect. It will put real heat behind efforts to change the often ill-directed way the towers' owner, the Port Authority of New York & New Jersey, directs \$700 million a year or so worth of capital into the 1,500 square miles of New York and New Jersey that are its turf.

Backed by \$1.9 billion in airport rental fees, bridge and tunnel tolls and better than \$5 billion in bonding power, the Port Authority has often seemed out of control. The building of the twin towers themselves was a boondoggle.

"We're going back to basics," says Richard Leone, a resourceful behind-the-scenes operative who spent a decade on Wall Street before being named PA chairman a little over two years ago.

"There have been experiments or gambles that have been very modest in their return," continues Leone. "Not all, but many have been disappointing."

Some of the disappointments include a clutch of marginal industrial parks that came off the drawing boards in the palmy mid-1980s, when all of the PA's moneymakers (and the region's economy) were running at peak unit volume.

Among them: the Yonkers Industrial Park, which

opened up about 400 jobs and ran a deficit of \$4.5 million last year. Then there's the Bathgate Industrial Park in the South Bronx, which last year cost the PA about \$2.4 million in operating losses.

Then there is \$400 million in regional development money parceled out between the two states. The development money turns up in some unlikely places: a \$46 million commitment to a Caribbean and African trade center in Harlem, \$7 million for renovation of an engineering labora-

tory on the thriving campus of Stevens Institute of Technology in Hoboken, \$5.8 million for a science education showplace a short way downriver in Jersey City.

Who controls the Port Authority's purse strings? Ultimately, the governors—Mario Cuomo of New York and James Florio of New Jersey. Like most politicians, they love to pour cement, a reciprocal for the campaign contributions that flow back from the contractors and building-trades unions.

How else to explain the authority's tardiness in turning off the tap on the financing of a new central terminal at JFK? Even though the financially shaky airlines shouted halt, the PA unaccountably went right on pouring cement, and didn't stop until 1990-91, when reality finally set in. The result was maybe \$100 million worth of gaffes like a baggage tunnel to nowhere, computerized freight mover software that didn't cut the mustard and acres of unused parking garage space.

The press had a field day with these goofs through much of last year.

With the help of his executive director, Stanley Brezenoff, a strong nuts-and-bolts type who put in four years as a deputy mayor of New York City, Chairman Leone has put a full-court press on costs. But can he

Port Authority's money machine

Property	Gross operating revenues (\$mil)	Net income (\$mil)
Some winners		
George Washington Bridge & Bus Station	\$224.9	\$147.2
Holland Tunnel	66.0	13.0
JFK International Airport	406.0	61.8
La Guardia Airport	187.4	15.3
Lincoln Tunnel	82.6	19.1
World Trade Center	292.2	51.2
Some losers		
Marine terminals	\$90.0	-\$5.1
Port Authority Bus Terminal	22.5	-62.2
Port Authority Trans-Hudson railway	58.9	-168.6
Regional programs & development	89.4	-8.2
Vista Hotel	37.1	-3.1

All figures are for 1992.

Motorists support straphangers. It takes the George Washington Bridge, and then some, to cover the drain of the Port Authority Trans-Hudson railway.



World Trade Center
tenants in flight

**More of the cement will be
poured closer to home.**

passengers in 1988, but only 27.8 million last year, and has been steadily losing its market share of international travel.

Some of the PA air and motor vehicle counts did improve a bit last year, but its dollar numbers are up only because of the 33% increase in bridge and tunnel tolls authorized in April 1991, not long after Mario Cuomo settled safely into a third term in the statehouse.

With elections coming up in New Jersey this year, and Governor Florio very likely facing an uphill fight for his second term, there seems little chance the PA will be able to come back to the rate trough anytime soon.

The twin towers of the World Trade Center, which last year accounted for 15% of the Port Authority's total operating revenues, are a further limiting factor. Something like 2 million of the buildings' 9 million rental feet of office space were coming up for renewal over the next four years anyway, in an overbuilt market that is notably soft and is expected to remain so. One sure bet is that hungry brokers with plenty of open space to peddle will pick off at least some of the PA's tenants.

It is not improbable that the direct costs of fixing up after the blast will exceed the \$1 billion limit on the PA's liability, property damage and interrupted business insurance. Throw in reduced bridge and airport traffic and political resistance to higher tolls, and money is going to be tight around the Authority over the next few years.

really persuade the leopards in the executive mansions of New York and New Jersey to change their spots?

Maybe he can. The political climate for smarter spending at the Port Authority has been sharpened by its own recently dwindling fortunes. Unit volume at many of the Authority's major moneymakers, partly because of the region's

recession, has been sliding consistently below the levels of the mid-Eighties.

Newark International Airport handled 29.4 million passengers in 1986, but only 24.3 million last year. La Guardia saw 24.2 million passengers travel through its terminals in 1987, but only 19.7 million last year. JFK handled 31.2 million

We Americans love to complain about foreign barriers to U.S. goods. But look what we are doing to this South Korean steel company.

Protecting whom?

By Damon Darlin

IF PROTECTIONISM ever made sense, it doesn't in the waning years of the 20th century, when manufacturing processes as well as markets freely cross national boundaries.

Consider major U.S. steel companies' request that Washington take action against South Korean steel exporters. The International Trade Commission supported them, and the Commerce Department recently set preliminary punitive duties of 35%. Our biggest steelmaker, USX Corp., while not party to the Korean suit,

joined in on suing all the other foreign makers and backs Washington. Yet USX stands to lose directly if the duty is imposed.

USX has a joint venture in Pittsburg, Calif. with Pohang Iron & Steel Co. of South Korea. Posco, as the company is also known, supplies high-quality hot-rolled steel, or "hot bands," to the joint venture, which then makes cold-rolled steel, the sheets used in office furniture, construction, cans and other products.

Posco admits to selling the steel for

below what it can get in other markets. But that was part of the contract's pricing formula that USX set up in the joint venture with Posco in November 1985. The deal saved a lot of jobs in California, since USX had planned to close the California plant because it couldn't compete with the Japanese. Posco, the world's third-largest steelmaker, makes high-quality steel that can match Japan's. Park Tae-Joon, now Posco's honorary chairman, saw an opportunity to break into the U.S. market and create goodwill at the same time by saving the jobs.

To modernize and expand the plant, Posco put up more than \$200 million; USX threw in the plant itself. The joint venture was 50-50.

Not everyone in Posco's management liked the deal. Many of the executives pointed out that the steel could easily be sold in booming Asia at higher profit margins and without requiring a large commitment of capital. "We felt that Posco suffered from the formula price," says Koo Jay-Young, a Posco managing director.

The partners asked for and received written assurances from then Secretary of Commerce Malcolm Baldrige and U.S. Trade Representative Clayton Yeutter that the U.S. had no objections.

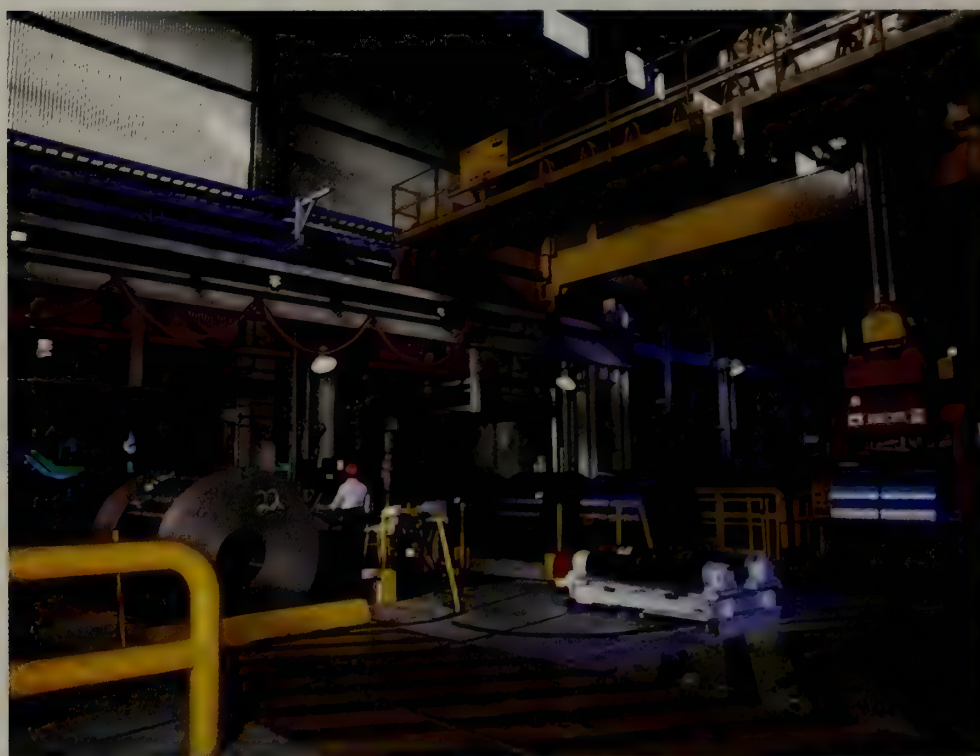
Posco has shipped as much as 700,000 tons a year to California, and the joint venture has reduced the West Coast market share of foreign producers of cold-rolled steel by nearly 50%. One thousand Americans work in the plant.

So how does USX explain its support for the dumping charges, which would hit its own raw material? With difficulty. "We are, in effect, on both sides," says USX spokesman Thomas Ferrall.

Posco is appalled. "Feeling betrayed is to put it lightly," says Koo.

Posco questions whether it can continue the joint venture with the high duties. USX could use steel from U.S. plants, but there is not enough high-quality steel available. With higher transportation costs, that would put USX back into an uncompetitive position.

Protectionism sounds like a fine industrial policy, doesn't it? For 179, maybe.



The USX-Posco cold-rolling mill

Will punitive tariffs doom the successful USX-Posco venture?

Sears dies, Spiegel flies. The women's fashion cataloger hits a home run with flannel shirts and down vests.

Indoor outdoorsman

By Christopher Palmeri

SPIEGEL Chief Executive John Shea looks uncomfortable as a photographer poses him in a fishing hat and a red flannel jacket, holding a fake carp. "A can of tuna—that's how I fish," he sheepishly confesses.

That's how a lot of his customers fish, too. Jack Shea, a 55-year-old New Jersey native, may do his fishing and hunting in supermarkets, but he knows that an outdoor image moves merchandise. When Spiegel, Inc. purchased Eddie Bauer Inc. from General Mills in May of 1988, Shea paid \$260 million—which was about the level of Bauer's sales. This year Shea expects Bauer's sales to top \$1 billion, way ahead of rivals L.L. Bean and Lands' End. "It's been a home run," boasts Shea.

But not quite a home run for Spiegel as a whole. The recession and two tough years for catalogs knocked Spiegel's earnings down from a high of \$73 million in 1989 to \$17 million in 1991. But last year Jack Shea brought earnings back to \$43 million, or 83 cents per share, and analysts expect another 25% increase this year. At 2% on \$2.2 billion in sales, Spiegel's net margins are still less than half of what they were in the good years.

A veteran of Philadelphia's John Wanamaker chain, Shea was hired as head of merchandising at Spiegel in 1981. The firm was then in the early stages of a turnaround. In the 1970s Spiegel had been gushing red ink competing for the same catalog customers as Sears, J.C. Penney and Montgomery Ward. Spiegel management did a smart thing: It switched focus from general merchandise to specialty lines, concentrating on moderately priced designer clothes

for working women. Spiegel began carrying labels such as Calvin Klein, Liz Claiborne and Anne Klein. By 1985, when Shea was named chief executive, Spiegel was comfortably in the black, earning \$13 million on sales

of \$850 million.

But Shea knew there were limits to any narrow market. Over the last five years sales through Spiegel's women's catalog have grown by less than 5% a year. So he found himself another specialty, outdoor wear, buying Eddie Bauer, an old and respected name that had gotten its start selling sleeping bags and similar items for rugged types. General Mills never gave Bauer its full attention. Shea did. He in effect added line extensions by expanding outdoor clothing for the not-so-rugged. He broadened Bauer's range of women's clothing and footwear, and added home furnishings to the mix. "Jack sensed that the market wasn't so much the serious outdoorsman as the suburbanite taking the kids to school in the Ford Explorer," notes retail consultant



John Shea, chief executive of Spiegel

The market isn't so much serious outdoorsmen as suburbanites.

Walter Levy.

Bauer had 57 stores when Shea purchased the company; today it has 265. They are heavily concentrated in mall locations where there are high densities of Bauer catalog purchasers. That cannibalized catalog sales initially, but Shea found that within 18 months catalog sales came back. And the stores won new customers who prefer to try the stuff on.

Recognizing that people had less money to spend, Shea heavily revamped his merchandising. He reduced the variety of men's shorts, for example, and piled the remaining styles higher. He has remodeled 60 of the stores, making them more outdoorsy, with more camping and fishing gear hanging on the walls. Shea cut prices, too. Bauer does a big business in \$20 polo shirts and \$30 blue jeans—hardly gear for mountain climbers or fly fishermen.

Bauer's sales jumped 17% last year at stores open for more than a year. Sales exceeded \$400 a square foot, impressive for any retailer. Some 30% of Spiegel's revenues now come from retail stores, up from nothing five years ago. And Bauer, with its higher-margin private-label merchandise, has the potential to outearn Spiegel's slower-growth women's catalogs.

Not every Shea deal worked as well as Bauer did. In 1991 he had to write off nearly half of his \$23 million investment in Honeybee, a higher-priced retail chain and catalog featuring women's dresses. Crayola for Kids, a children's clothing venture, has fared poorly. But, For You From Spiegel, a catalog with clothing for large-size women, has expanded to ten retail stores. And later this year Spiegel will bring out E Style, a line of clothing designed in conjunction with *Ebony* magazine.

Although the U.S. public owns 12% of Spiegel's 52 million common shares, outright control has rested since 1982 in Germany's Otto family, whose privately held Otto-Versand GmbH is the world's largest catalog retailer, with sales of \$13 billion.

With the Ottos solidly behind him and with Bauer clicking ahead, Jack Shea now has his sights set on more acquisitions. "Thanks to Bauer," he says, "we won't be afraid to buy a retailer."

In the latest twist in deep-pocket legal theory, a girl sued her mother after her father abused her sexually. Why mom? Because she was covered by insurance; dad, the perpetrator, was not.

Find the deep pocket

By David Frum

FOR FIVE YEARS, until she ran away from home at 17, Denise Richie of Webster, Minn. was sexually abused by her father, Dennis Richie. The abuse plunged her into depression and mental instability, including suicide attempts. In 1991 she finally pulled herself together and brought criminal charges against her father, who was sentenced to ten months in the workhouse.

And then, her lawyers brought a lawsuit against . . . Richie's mother.

Her mother? To be sure, Lanell Richie had turned a blind eye to the abuse, refusing to believe the story when it was told to her, ignoring the evidence that two other family members and a family friend had suffered abuse, too, even telling a police officer she had suspicions that something was going on between her husband and her daughter.

But that's not why the lawsuit was brought against the mother, or, to be precise, against the mother and father jointly. The lawsuit was brought because the Richies' household insurance policy, like most insurance policies, does not insure against intentional wrongdoing.

Sue Mr. Richie for his crime, and you get whatever you can collect from his pay packet as a systems operator at the local power company. But sue Mrs. Richie and—bingo!—you are suing an insurance company, in this case the West Bend Mutual Insurance Co. If the Richies' policy didn't cover wrongdoing, it did cover negligence. And, reasoned attorney Kathy Ta-

tone, wasn't Mrs. Richie negligent? In a jury trial last October, Tatone won for her client, Denise Richie, a judgment for \$2.4 million—\$1 million in punitive damages against Mr. Richie, the other \$1.4 million in a negligence judgment.

Tatone and her cocounsel, Sarah Mardell, appear to be the very first in America to win a sizable judgment against a mother for negligence in a child abuse case. Two weeks later, Earl Drott of Tyler, Tex. became the second. He won \$3.4 million by suing a Texas couple after the man molested the woman's two preteen daughters. The mother has now filed a claim against her insurance company, Foremost Insurance Co. of Grand Rapids, Mich., for the \$1.7 million judgment against her.

Everybody agrees that child abuse is an appalling crime. The dispute that these two verdicts raise is, who should be punished for it? The child abuser? Or everyone who pays a premium for household insurance?

Until recently, society's answer was unequivocal. Almost all states forbade family members to bring lawsuits for financial damages against one another. But over the past 30 years these statutory barriers have been dropped and state after state has welcomed lawyers into the exciting new area of "domestic tort."

According to Tatone, domestic tort law is simply a logical outgrowth of traditional personal injury law. "If I were not watching carefully, and one of my children fell down the steps and



Sex-abuse plaintiff Denise Richie (center) with lawyers, Kathy Tatone and Sarah Mardell

Targeting an insurance company's deep pockets. The judgment: \$1.4 million against Richie's parents for negligence.

hurt himself, he could sue me for negligence," she says.

But as the Richie case shows, domestic torts contain dangerous temptations that may help explain why so many states forbade them for so long: At the same time Denise Richie was suing her parents in civil court, she was in criminal court asking that her father receive a sentence lenient enough to permit him to keep his job—because he was the sole support of her mother and younger brother. Her request was granted, and her father got off lightly.

Leonard Karp, a Tucson attorney and author of a book about domestic torts, defends the principle of such suits, saying: "If the victim has been injured—and there are often hideous injuries which require years and years of therapy—why should they not re-

cover damages?"

A generation ago few would have taken Karp's argument seriously. The answer to his question would have been obvious: No matter how gravely you have been injured, you can recover damages only if someone else is at fault—has committed a tort—and only from the actual tort-feasor, not from some third party chosen because he or she happens to have money or insurance.

Karp's question is based on a new way of thinking about the tort system, a way of thinking that has spread since the 1970s and holds that the tort system's purpose is not only to punish wrongdoing, but to find somebody—anybody—with money to pay the victim. "This is part of the concept of finding the deep pocket," says Karp. For his services in finding a handy

pocket, Karp always offers plaintiffs a choice of an hourly rate or a contingency fee, but virtually all his clients choose his contingency fee of generally between 25% and 35%, depending on the difficulty of the case, plus expenses.

The deep pocket does not always have to be an insurance company. Karp has sued the Roman Catholic Church for negligence in cases involving the sexual molestation of children by priests.

But for those worried about the implications of deep-pocket legal theory there was good news recently—and it comes from, of all places, litigation-happy Texas. In an important case decided in December, *Boyles v. Kerr*, the Supreme Court of Texas issued a warning that there is a limit to how far plaintiffs' attorneys can go in turning cases of intentional wrongdoing into negligence in order to collect insurance money.

Dan Boyles Jr. and three friends secretly videotaped sex between Boyles and his girlfriend, Susan Leigh Kerr, in August 1985. Boyles showed the tape three times to groups of friends, and word of it quickly spread through the University of Texas at Austin and Southwest Texas State University, where Boyles and Kerr were enrolled.

Kerr was understandably furious and humiliated. She sued Boyles and the three others who had taped her. This could have been an open-and-shut case, if Kerr had chosen to base her theory on the Texas tort of "intentional invasion of privacy." But, apparently because of the rule that insurance does not insure against intentional wrongdoing, her attorney brought a different claim: "negligent infliction of emotional distress." In 1989 a Houston jury awarded Kerr \$1 million, \$500,000 in uninsurable punitive damages and a \$500,000 negligence judgment.

The Supreme Court of Texas overruled the judgment. It said that Boyles and his hooligan pals can be made to pay for what they did; their insurance companies cannot.

That's an old, but potentially radical, idea. Taken seriously, it would hold the burgeoning and lucrative specialty of domestic tort to its proper limits.

Want to invest in Latin America? Look for a flood of public offerings from Latin subsidiaries of U.S. companies.

Yanqui, go public

By Joel Millman

SEARS, ROEBUCK had a great year in 1992, reveling in a mammoth expansion to take advantage of booming consumer spending.

Sears? Of Chicago?

No, Mexico City. Sears Roebuck de México, a subsidiary of the U.S. retailer, has been operating in Mexico since 1947, its chain of 33 stores stretching from Veracruz to Chihuahua.

In 1989 Sears got government approval to add 30 more stores. With the parent financially strapped, however, the subsidiary was on its own to raise the necessary money. So last March, Sears Mexico sold 25% of the company to the public for \$128 million. About \$15 million of that, raised in pesos, stayed with Sears Mexico to finance the expansion; the balance, sold as American and Global Depositary Shares, went to bolster the parent's balance sheet. After taxes, \$54.5 million straight to the bottom line. With the market valuing Sears Mexico at \$585 million, the parent's 75%

interest is worth \$440 million.

For Sears, this represents a handsome payoff for getting into Latin America early and sticking it out. Other U.S. firms have been similarly rewarded. Of the 70 Latin American firms with annual sales over \$1 billion, 11 are Yanqui subsidiaries; 8 of those are from four U.S.-based multinationals: Ford, Exxon, GM and IBM.

But seldom have these big subsidiaries gone public the way Sears Mexico has. The maneuver, called a carveout, has, however, been used fairly extensively by U.S. companies in Japan. In the late 1980s price/earnings multiples on Japanese stock exchanges lured several U.S. subsidiaries into public offerings. Companies like Honeywell, Avon and Shaklee Corp. all had publicly traded Japanese subsidiaries with shares valued at multiples much higher than shares at home.

With investment interest in Latin America growing, expect much more of this. Citicorp Equity Investments is

a holding company for equity stakes that the bank swapped debt for. Citicorp Equity has applied to list on Buenos Aires' bolsa. Empresas Carrier, a United Technologies subsidiary making air conditioners in Monterrey, filed last summer to register shares in Mexico. Steelmaker Armco is planning an IPO in Chile.

Armco wants to capitalize on high multiples on the Santiago Bolsa and loosening regulations on Chile's privatized pension funds. Up to now the pension funds have been allowed to buy shares only in government-approved equities. The release of \$9 billion to hunt for new investments should drive P/Es even higher than the current market average of 15.

Armco, which had contemplated selling its South American operations, feels it can earn better value through the stock market. The company hopes to reap \$30 million by selling 60% of its Chilean subsidiary.

Investment bankers are salivating at the prospect of taking some of the bigger U.S. subsidiaries public. Goldman, Sachs, which grossed about \$6 million (or 5%) in fees on the Sears Roebuck de México IPO, says it now has several more such deals in the works. J.P. Morgan is talking to about a dozen U.S. subsidiaries in Argentina and Brazil; Bankers Trust is handling the Armco IPO in Chile.

Not every subsidiary makes a good IPO candidate. GM's Mexican subsidiary, for example, functions more as a division of GM Detroit than a stand-alone Mexico play. Consumer goods manufacturers that have most of their sales in the host country are better bets. "You need a specific company with a good operating story locally to make this work," says Neil Allen, head of Latin American operations at Bankers Trust.

"The IPO market in Latin America is going to be strong for the next few years," adds Peter Bernard, managing director of J.P. Morgan's Latin America Capital Markets Group. "International companies will want to take advantage of that trend."

Carveout caliente

Company/country	U.S. parent/ % ownership	Recent price	P/E	1992 revenues (\$mil)	Latest 12-month EPS
Baesa/Argentina	Pepsi-Cola Puerto Rico Bottling/35%	\$23.00 ¹	17	\$204	\$1.37
Celanese Mexicana/Mexico	Hoechst Celanese/51 ²	5.83	9	850	0.67
John Deere/Mexico	Deere/49	3.00	5	175	0.59
Kimberly-Clark de Mexico/Mexico	Kimberly-Clark/43	9.00 ³	13	895	0.69
Linde de Mexico/Mexico	Praxair/80	5.00	20	107	0.25
Massalin Particulares/Argentina	Philip Morris/63	9.50	12	1,300	0.78
Sears Roebuck de Mexico/Mexico	Sears, Roebuck/75	7.80 ¹	9	483	0.91
White Martins/Brazil	Praxair/52	2.70	16	588	0.17

¹Trades as American Depositary Receipts. ²Owned 40% by Hoechst Celanese, 11% Hoechst, AG. ³Company expects to issue an ADR this year. Sources: Finanzur (Argentina); Patrimonio (Brazil); Forbes.

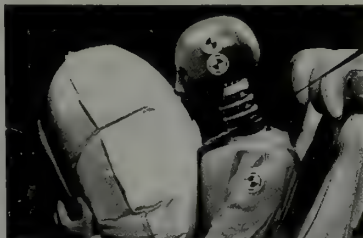
Few U.S. subsidiaries trade publicly in Latin America. Here's how some of them are doing.



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If a retirement plan invests in a bank or insurance company that goes bust, who eats the loss? This has a lot of employees—and employers—worried.

Fall guy

By Carolyn T. Geer

JAMES TURNER is in deep cow manure. He put the entire \$1.2 million pension fund for 40 employees of Turner Dairy Farms, of Penn Hills, Pa., in a guaranteed annuity contract at Mutual Benefit Life Insurance Co. There the money has been frozen since July 1991, when New Jersey authorities seized Mutual Benefit after a run by policyholders. At the time of the seizure, Turner was in the process of converting the pension plan from a defined benefit plan (whose assets effectively belong to the dairy) to a profit-sharing plan (whose assets belong to employees).

If the conversion had been deemed to be completed before the seizure, Turner would be off the hook. A state insurance guarantee association would cover his employees' losses. Thus far the association is refusing to cover the Turner plan, and the dairy, if it elects to take a cash settlement and run, will probably be out 45 cents on the dollar.

Turner's problem is shared, in varying degrees, by at least 100 other sponsors of retirement plans who were customers of Mutual Benefit, including General Mills, General Signal, AT&T, Grumman and Manville. Defense contractor Grumman has a thrift plan with 30,000 participants and almost \$40 million in assets tied up in Mutual Benefit. General Mills put \$15 million of its employees' money in Mutual Benefit. Most of these sponsors had the good sense to diversify their insurance investments, so their thrift plans will suffer at worst small hits.

Who takes the fall when a thrift plan gets tangled up with a bum insurance company? It depends on what kind of fund you have and where your com-

pany is situated. Despite the fact that Pennsylvania's guarantee association may leave the Turner dairy out in the cold, it happens to be one of the more generous ones out there. In many states, corporate thrift plans get no coverage.

Will employers kick in to make up for the Mutual Benefit disaster? Grumman and General Mills say they have no intention of doing so. Some employers want to chip in, but can't



without a special blessing from the Internal Revenue Service, says Peter Elinsky, a tax attorney with KPMG Peat Marwick. Why not? Strict rules apply to tax-deferred retirement plans, and sponsors who contribute more money than they are supposed to, or who contribute unevenly, can destroy the tax status of the plan. The IRS could argue that a sponsor has no right to pick up the losses some employees suffer on their Mutual Benefit invest-

ment but not the losses other employees suffer on, say, their biotechnology sector fund.

Not only buyers of insurance company contracts have to worry about insolvencies. The same crisis could befall retirement plans investing in bank deposits, under new rules put out by the Federal Deposit Insurance Corp. Until recently the FDIC generously counted each participant in a plan to be a separate bank depositor eligible for \$100,000 of protection if the bank fails.

No more. Since December only deposits made in institutions that meet minimum capital requirements continue to receive passthrough coverage of \$100,000 per participant. For newly created deposits in shakier banks, coverage has dropped to \$100,000 per plan. Moreover, as of December 1993, bank "investment contracts" (distinguished from deposits by the wording on the documents) won't be covered at all.

Who's supposed to monitor bank balance sheets, the workers or their employer? Federal law implies that the employer must at least be "prudent" in selecting thrift plan assets. But that's a far cry from saying that employees are fully protected from bank and insurance company failures. Mutual Benefit, after all, was still rated A+ when some of the thrift money was going in.

Since the real estate recession isn't over yet, there will be more insurance company and bank failures. Here's some simple advice for employers:

- Diversify. Don't put more than 10% of your retirement plan's guaranteed investment contract funds with any single insurer.
- If you offer bank deposits as an investment option, make certain that the deposits qualify for \$100,000 deposit insurance per employee.
- Explain the risks to employees.

And some advice for employees:

- Don't allow any of your retirement savings to go into undiversified investments at either banks or insurance companies.

- Put most of your thrift plan assets in low-overhead mutual funds, preferably a variety of funds with different investment styles.

- If your employer doesn't offer such funds, complain.

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Which American quasi-monopoly uses dishonest advertising to push shoddy products at exorbitant prices? If you read only one book this year it should be Tom Sowell's "Inside American Education."

Ph.D.s in hypocrisy

By James W. Michaels

AN INTERNATIONAL STUDY of 13-year-olds found that Koreans ranked first in math and Americans ranked way down on the list. Yet surveys show 13-year-old Americans are three times as likely to *think* they are good at math as are Koreans of the same age.

Thomas Sowell, Hoover Institution economist (and *FORBES* columnist), analyzes this contradiction between what youngsters know and what they think they know. In a stunning new book, *Inside American Education*, he blames the American obsession with making children feel good. Americans stress "self-esteem." Koreans and Japanese emphasize high standards. American kids are supposed to feel good. Oriental kids are supposed to do good.

The facts are: Test scores drop; businesses must deal with a work force that borders on illiteracy; the still excellent American graduate schools increasingly turn to foreign students to fill their ranks.

Sowell is an American Emile Zola, accusing the smug American educational leadership of hypocrisy, anti-intellectualism, avarice and propagandizing for essentially left-wing causes. Sowell writes in a factual, analytic style, but sometimes anger breaks through: "They [professional educators] have taken our money, betrayed our trust, failed our children and then lied about the failures with inflated grades and pretty words.

"While schoolchildren in Japan are learning science, mathematics and a foreign language, American school children are sitting around in circles unburdening their psyches. . . .



Worse than what they are *not* learning is what they *are* learning."

Sowell accuses the educators of fostering racism in the name of fighting it. Two female Jewish students at Stanford were handing out leaflets for their student union when two Black Muslim Union students harassed them, shouting anti-Semitic obscenities. In tears, the women complained to a student conduct office only to be dismissed with the advice that they develop "thicker skins." At leading universities, white or Asian students are often punished or sentenced to "sensitivity training" for delivering real or fancied slights to blacks or other minorities.

But instead of feeling guilty, as they are expected to, Sowell writes, the nonminority students are getting angry. If they came to school with little

prejudice, they soon develop resentments against minorities and homosexuals. Sowell talks of "an unprecedented escalation of overt racial hostility among middle-class young people on predominantly liberal or radical campuses."

Most colleges and universities give preferential admission to so-called minority students. This policy is wrapped in noble rhetoric, but Sowell smells money: "The need to avoid the political appearance of racial discrimination . . . makes minority youngsters valuable as bodies and expendable as students." The name of the game is racial justice, but the goal of the game is cash—federal grants that are withheld if an institution does not meet racial, gender and ethnic quotas.

Thus, he points out that Stanford

rejects most students whose verbal SAT scores fall between 700 and 800 while admitting more than 100 other students who scored below 500. It's obvious that the under-500s were mostly affirmative action cases.

To enable under-500 minority students to keep up with the over-700 students requires that teachers adopt lenient grading policies toward many minority students. The double standard hurts blacks more than whites. It forces some whites and Asians to attend second- or third-choice schools, but it puts minority students into situations where many of them are bound either to fail or to realize that their passing grades are given, not earned. Thus are many black and Hispanic students sacrificed on the altars of greed and political conformity.

Sowell is contemptuous of many of our elite colleges. Citing a handbook that lists Berkeley as among the nation's great universities, he counters: "... Berkeley is notorious for its mass, impersonal education, its many classes taught by hundreds of teaching assistants ... and for bureaucratic and other obstacles to getting a decent education."

Meeting college costs has become the great American middle-class trauma, as great a worry as catastrophic health costs. College pricing policies are larcenous but not irrational. He

shows how a college that could sell tuition for \$8,000 a year has every incentive to charge \$12,000 instead. By charging only \$8,000 it would be forgoing \$4,000 a year it could get either from federal subsidies or from gouging the minority of well-to-do parents. Wouldn't supermarkets charge \$5 a loaf for bread if the government made up the difference for those who couldn't afford \$5 a loaf? As Sowell puts it: "In an academic context, 'Costs have risen' has exactly the same meaning as 'We chose to spend more money.'"

When criticized, educators blame society or ex-President Reagan for their failures. They retreat behind a prepared defense of euphemisms. Pay raises for teachers are "an investment in the future." President James Duderstadt of the University of Michigan gave a whole new meaning to doublespeak when he affirmed: "There is no quota system at the University of Michigan," but "we seek a student body composition that is reflective of the national composition." While demanding more money in order to have smaller classes, educators don't like to talk about the fact that the average size of elementary and high school classes in the U.S. is 26, compared with 41 in Japan.

The National Education Association is the nation's largest trade union and a source of funds and doorbell-ringers for Bill Clinton. Faced with education's glaring failures, the president of the NEA had the temerity to say: "Students are threatened only by the failure of policymakers to give education the money it deserves."

These are the folks who presume to teach and preach to business about ethics.

If I had to fault this book it would be for letting the media off relatively lightly, for journalists have their own double standards, harsh on business and politics, squishy soft on the academics. Much of what Sowell has to say is revelation only because the media don't want to reveal it. ■



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WE ARE DRIVING EXCITEMENT

A new competitor is loosening the grip of billionaire dealmaker Marvin Davis' Spectradyne on the hotel movie business.

Bad reception

By Christopher Palmeri

IN EARLY DECEMBER billionaire Marvin Davis visited with his longtime friend, hotel magnate Barron Hilton. It was not a social call. Davis was making a last-ditch effort to save an account. Hilton Hotels Corp. was about to sever its ties with a company Davis controls, Spectradyne, and switch to another supplier with newer technology and a better deal. It was a heavy blow for Davis. Spectradyne is in the business of piping recent Hollywood movies to some 750,000 hotel rooms nationwide. Davis was anxious not to lose Hilton's 38 corporate-owned hotels with their 31,000 guest rooms.

Friendship or no friendship, Hilton

dumped Spectradyne in late January. Davis is not the sort to take turn-downs gracefully. The day after Davis got the news, Spectradyne sent Hilton a fax. It was Friday afternoon. The fax said that Spectradyne would be shutting down television service to the Hilton properties the following Monday. In doing so, Spectradyne probably cost itself more lost revenue than it cost Hilton, because Spectradyne's replacement wasn't due to be installed for months. "We were assuming that no one was going to shoot themselves in the foot consciously," says Hilton Vice President Dennis Koci. "They did it over sour grapes." Spectradyne's corporate

counsel, Matthew Hutchins, shoots back: "This was not punitive, we needed the equipment."

Hilton didn't take it gracefully either. Managers prevented Spectradyne employees from entering some rooms to remove their control boxes. Hilton's properties still don't have pay-per-view movies.

For Marvin Davis, Spectradyne seems to be turning into a disappointment. He bought its parent, SPI Holding, Inc., from an investment group connected to Texas billionaire Robert Bass, paying \$679 million—about five times revenues—in a highly leveraged transaction in 1989, wherein Davis put up just \$69 million in cash. At first, things went well. SPI increased cash flow by better than 15% a year by adding new hotels and more services, and by raising movie prices from an average of \$6.29 to \$7.78. But cash flow didn't rise fast enough to cover the interest expenses and capital expenditures Davis incurred. Last September Davis pushed the company through a prepackaged bankruptcy that eliminated \$120 million of liabilities and reduced interest expenses. However, SPI still carried a hefty \$450 million in debt.

The bankruptcy deal required Davis to invest another \$25 million and give up 69% of the stock. SPI recently traded on the American Stock Exchange at 4, valuing Davis' 31% of the company at \$21 million. His investment to date: \$94 million.

Right now Davis' biggest headache isn't the debt but the competitor who lured Hilton away from Spectradyne. On Command Video is a Sunnyvale, Calif. startup founded in 1986 by Robert Fenwick and Robert Snyder, two engineers with backgrounds in the defense industry.

On Command has decisive advantages over Spectradyne's original system. Whereas the latter offers just 8 movies at any one time, On Command can offer 60. With Spectradyne each movie starts at a scheduled time with On Command it starts whenever the viewer wants it to. Both services are based on a bunch of VCRs situated in the basement of a hotel. But instead of Spectradyne's 8 VCRs, On Command uses more like 200.

On Command's advantage has technological foundation. It is based



Jeff Sierombi/Outline

Investor
Marvin Davis
**Took a wake-up
call from
Barron Hilton.**



The family

portrait will

still be around

in 100 years.

Will the assets?

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upon an electronic switch developed by Fenwick and Snyder that allows them to direct one particular movie to one particular room. To order a movie, guests screen on their TV a list of 60 titles, which are available right then. No more waiting for a movie to start, or missing it because it has already begun playing. When all the copies of a popular movie are being used, its title disappears from the menu. "This is like fast food," Snyder says. "We're giving the customer what he wants right now."

No surprise, then, that one in five hotel guests order an On Command movie, often double the number where Spectradyne is the provider. That doubles the take for the hotel, which gets 80 cents (10%) of the typical \$8 fee per movie, and ditto for the movie studio (\$3.20, or 40%).

Making things even tougher for SPI, On Command is being backed by a partner with deep pockets. Over the last year and a half, Comsat Corp., the big Washington, D.C.-based satellite concern, has invested \$40 million for a 66% stake in On Command. (Comsat's own satellite-based hotel movie service has been a disaster, leading it to write off over \$100 million since entering the business in 1984.)

Imitation is the sincerest form of flattery. In 1990 SPI rolled out a movies on demand system using a robotic arm to snatch the videotapes. It can take several minutes to start, however, and the arm has a tendency to break down. SPI is testing a service similar to On Command's. On Command and SPI are suing each other, alleging infringement of patents. Meanwhile, LodgeNet Entertainment, a privately held Sioux Falls, S.D. firm, has also developed a service similar to On Command's and has won a preferred provider status with Sheraton, a major Spectradyne account.

Though On Command is still tiny (it took in just \$7.7 million in revenues last year), it has been snatching prime customers from SPI. In addition to Hilton, Marriott has been converting at a rate of two or three properties per week. On Command is providing movies in such deluxe digs as the Ritz-Carlton and Fairmont chains. Spectradyne executives now say they expect much of their future growth to come from overseas.

Cardinal Distribution's Bob Walter walked away from what could have been a lovely acquisition.

It's my money

By Reed Abelson

LAST JUNE Robert Walter thought he had found the perfect acquisition for his Ohio-based Cardinal Distribution, Inc., a \$1.6 billion (sales) drug wholesaler. The price was a cool \$250 million, but the fit was near perfect. The only problem was that one of

Walter's biggest competitors was willing to pay even more for the acquisition. When the bidding got too rich, Walter simply walked away. "I'm reaching in my pocket," says the chairman and chief executive, pointing out that he owns 19% of Cardi-



Robert Walter, Cardinal Distribution's chief executive

"You mean to tell me we can't make more money than we did in the past?"

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Company/headquarters	1992		1993			Fiscal 1992		ROE	Price/ earnings
	revenues (\$bil)	market share	revenues (\$bil)	market share	growth rate	earnings (\$mil)	operating margin		
McKesson/San Francisco	\$10.1	25%	\$11.3	25%	12%	\$-78	2.1%	NM	52
Bergen Brunswig/Orange, Calif.	6.4	16	8.0	18	25	53	2.1	12.5%	11
FoxMeyer/Dallas	4.1	10	5.0	11	21	37.8	2.0	8.0	87
Alco Health/Valley Forge, Pa.	3.5	9	4.0	9	14	1	2.1	NM	NA
Bindley Western/Indianapolis	2.9	7	3.3	7	15	13	1.1	12.0	8
Whitmire/Folsom, Calif.	2.3	6	2.6	6	12	NA	NA	NA	NA
Cardinal/Dublin, Ohio	2.0	5	2.5	6	25	25	3.2	12.3	15

Figures for revenues, market share and growth rates are estimates for calendar years. NA: Not available. NM: Not meaningful.

Source: Wheat First Securities.

The seven largest drug wholesalers now control 78% of the \$40 billion market. The consolidation continues.

nal's 23 million outstanding shares. "That sets the standard: Am I [personally] willing to pay that much? That creates some discipline."

In demonstrating that discipline, the 47-year-old Walter clearly sets himself apart from those executives who are willing to pay almost any price for market share.

By acquiring Alabama-based Durr-Fillauer Medical, Walter's Cardinal could have added important southeastern markets to its existing networks in the Northeast. Durr was well run and profitable, and Walter had known the management for years. "We were looking at a home run," remembers David Bearman, Cardinal's chief financial officer. "It would give [us] \$800 million to \$1 billion in revenues in one shot."

But that shot was heard by Bergen Brunswig Corp., another big drug wholesaler, also eager to expand in the Southeast. A bitter bidding war broke out. By September Bergen was offering roughly \$450 million for Durr and its medical equipment business. Walter said, "So long."

Not that Walter isn't eager to expand. In the wholesale drug industry most small companies have either gone out of business or been acquired; the seven largest now control 78% of the estimated \$40 billion market (*see table*). Even that number may shrink if the more highly leveraged of the seven, Alco Health and Whitmire, turn to financially stronger partners.

In this consolidation phase, Cardi-

nal, once a small wholesaler itself, has been one of the leaders. Walter took over the company in 1971, when he was just 26, a mechanical engineer with a degree from Harvard Business School. "Knowing what I know now, I didn't know what I was doing," Walter says. "But it worked." One of his first moves was to fire the company's 58-year-old president, who resisted Walter's expansionist ideas.

In the early 1980s he started making acquisitions on a highly decentralized basis. "The kings in our company are the guys out there running their fiefdoms," says Walter.

He looks only for well-run companies with managers willing to stay on. He won't acquire companies that need lots of fixing. Walter recalls talking to the owner of one firm for more than nine years before he was able to buy the outfit. "He built the business into what I thought the business ought to be, and I paid more for it. In theory, it cost me money, but he delivered something of more value. By the time I got it, it was mostly fixed," he says.

The theory behind all this is simple and sound. By expanding, Cardinal can spread overhead over a far larger base; by keeping local managements, it succeeds in keeping the entrepreneurial spirit alive and ensures that managers know their markets. Says Ben Exley IV, whose family sold to Cardinal in 1990: "He's improved earnings, yet he's allowed Exleys to continue to manage that." Exley says the family didn't seriously consider

selling to anyone else.

What now, with Durr lost to the competition? "We have plenty of choices," Walter insists. "It isn't like, 'Okay, we didn't get Durr, now we have to rev the engine back up and start talking to other people.' I've been working at this for 13 years, talking to people in the industry. There are not that many companies. I know every one of them."

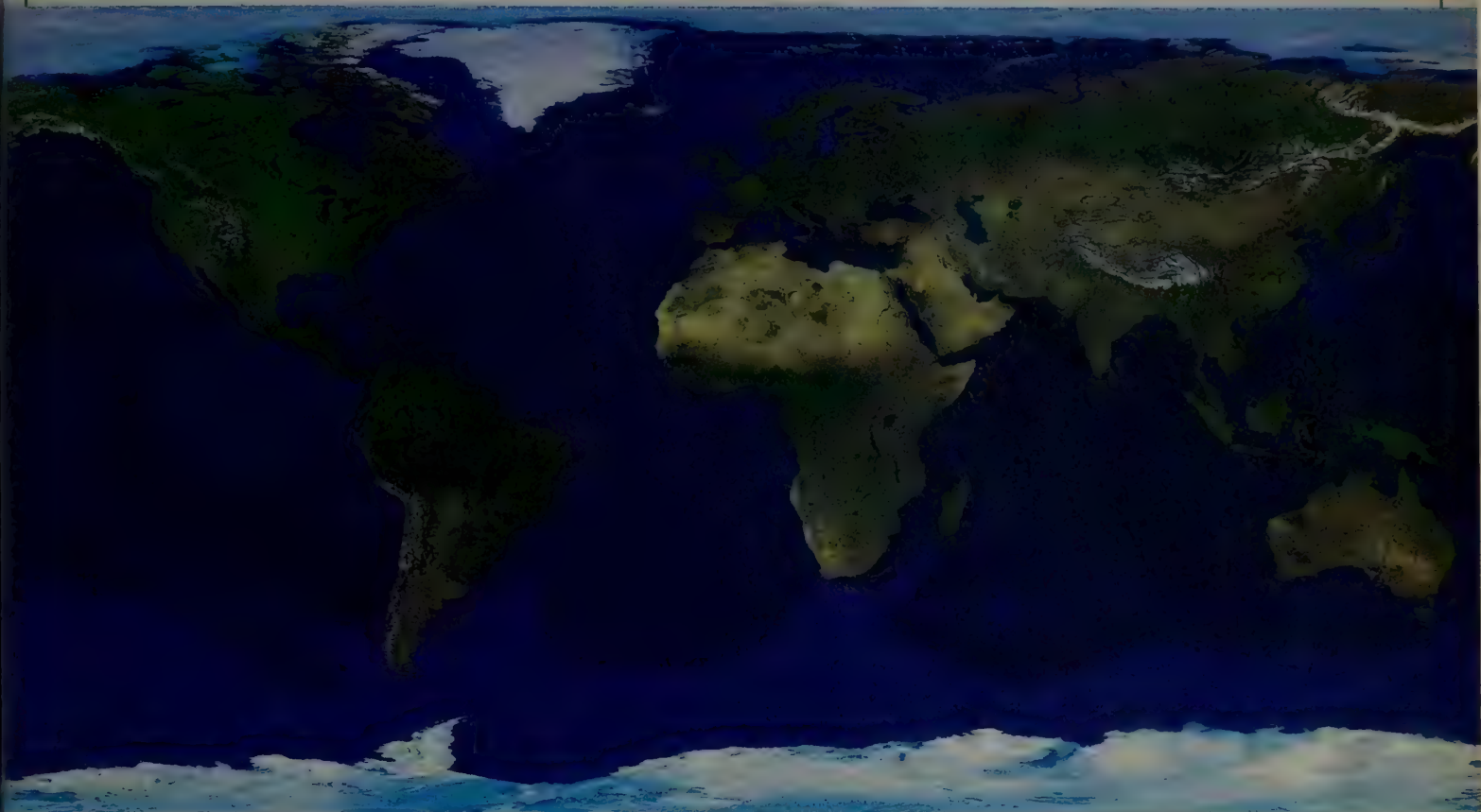
Even though he lost Durr, he managed to snatch away five Durr managers as well as get a good look at the region. Cardinal plans to start a regional division in Florida from scratch—the first time it hasn't bought an operation to enter a new market.

Cardinal's specialty is serving independent drugstores fighting to survive against competition from chains. It provides them services that make them more efficient, like volume discounts, for example, and an inventory management system.

It works. Cardinal has doubled its earnings over the last two years, from almost \$13 million to \$25 million, \$1.26 a share for fiscal 1992. Over the same period, revenues have almost doubled, to \$1.6 billion. Return on equity is a pleasing 12.3%.

So what if that juicy acquisition got away? "I've operated with no market position, no capital, and we're sitting here now with a terrific market position, a great reputation, we can access capital," he says. "You mean to tell me we can't make more money than we did in the past?"

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Bennett LeBow is investing in Russian companies these days. Will he have better luck than in the U.S.?

Blowing smoke

By Riva Atlas

FISHER ISLAND, Fla.-based financier Bennett LeBow appears to have the reverse Midas touch: Most of the deals he's done have been a bust.

LeBow acquired once majestic Western Union Corp. in 1987. Now called New Valley Corp., it has not paid interest or principal on \$304 million of its debt since April 1991.

His 1985 computer deal, MAI Systems Corp., has been in default on \$117 million in debt since late 1992.

SkyBox International Inc., a sports trading card company started in 1989, flounders, its revenues down almost 50% in the first nine months of 1992, to \$65 million.

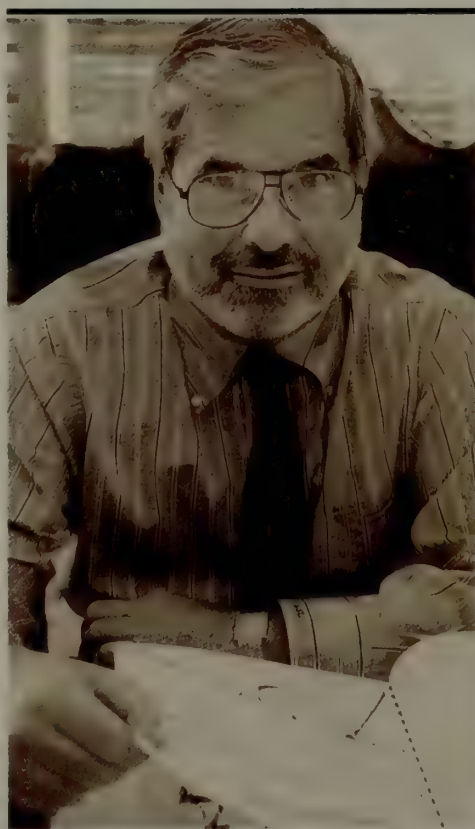
LeBow did have one truly successful deal, but even that now seems fouled up. In 1986 he acquired Liggett Group Inc., a \$620 million (1991 sales) cigarette company, from Grand Metropolitan Plc. Liggett flourished in the 1980s because it was first to develop lower-priced, generic brands. Last year generics accounted for over 30% of the cigarette market, compared with 1% only ten years ago.

Unfortunately for Liggett, in the 1990s industry giants RJR Nabisco and Philip Morris entered the discount business. Liggett's share of the generic market fell to 7% last year, from 12% in 1990, according to John Maxwell, who studies such things for Wheat First Securities. Its sales leveled off at \$469 million for the first nine months of 1992, a tiny increase from the previous year, and its cash flow declined to \$38 million, compared with \$57 million for the comparable period the year before.

LeBow can ill afford to have Liggett slip. Brooke Partners, L.P., which is what LeBow's major holding company was called in 1988, sold \$300 million in junk bonds that year. With three ventures in trouble, divi-

dends from Liggett weren't enough to pay interest on Brooke's debt.

In desperation, in 1990 LeBow merged Brooke Partners with Liggett Group, which he had renamed Brooke Group Ltd., gaining access to more of the cigarette manufacturer's cash-rich, low-debt balance sheet. Liggett's public shareholders weren't happy. To calm them, LeBow gave them contingent value rights, one for each publicly traded old Liggett share. These weird pieces of paper guarantee that the stock would rise from \$12 at the time of the merger to an estimated \$19.44 by November 1993. If it failed to so rise, LeBow would redeem the rights for the difference between the guaranteed price



Brooke Group's Bennett LeBow
Hoping for a miracle.

and the market price.

Early last year the Liggett subsidiary sold \$150 million in 11.5% senior secured notes. LeBow used some \$80 million to make interest payments and to buy back high-interest debt. In all, LeBow moved \$166 million from Liggett to the holding company last year. At the time, Liggett was more than capable of handling the additional debt: It covered interest payments about four times.

But LeBow also spent around \$30 million on a marketing ploy. He shifted emphasis from generics back to Liggett's old, regular-priced smokes, including Chesterfield, Lark and Eve. Volume increased 12% for the three full-priced brands in 1992, according to Mark Neuner, head of high-yield research at Jefferies & Co., Liggett's investment banker. But the campaign included heavy discounting, so its impact on Liggett's cash flow won't be clear until later this year.

Many of the original Brooke Partners junk bonds (\$221 million now outstanding) trade below 50 cents on the dollar. Brooke Group has only an estimated \$30 million in cash on its balance sheet, and it faces about \$16.5 million in interest payments on its debt on Apr. 1, with another \$16.5 million due in October.

LeBow's troubles mount. In November the contingent value rights expire. Brooke Group stock recently traded at 1¾. Unless it improves substantially, LeBow could face claims of \$60 million from the former Liggett minority shareholders. The contingent rights recently fetched 10 on the New York Stock Exchange.

A miracle could happen: In 1990 a jury awarded Liggett \$149 million in a pricing dispute with Brown & Williamson Tobacco Corp. The judge set aside the jury's verdict, and the Supreme Court was scheduled to hear Liggett's appeal this month. But even if it decides in Liggett's favor, Liggett is unlikely to see any cash soon.

What does LeBow have to say about all this? His hirelings say he is unavailable. He was recently traveling in Russia, where he spent \$12 million on at least six companies. These include such businesses as cigarette manufacturing and commodities.

Maybe the bondholders will accept rubles.

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In the Wall Street of the 1990s stocks and bonds are sidelines; futures, options and swaps are the real action. The so-called derivatives are transforming the way capital is raised, money is managed and fortunes made.

The age of digital capitalism

By Robert Lenzner and William Heuslein

BOEING CO. has a lot of German fans. Seeing this, Salomon Brothers just executed a crafty arbitrage that will give it a nearly foolproof profit.

On Mar. 9 Salomon sold warrants in Frankfurt, giving holders the right to buy Boeing common at 35 anytime in the next two years. Price of each warrant, 9 deutsche marks, or \$5.40. So where did Salomon get the warrants? Boeing hasn't issued any. Instead, the investment bank created the security out of thin air, hedging itself by buying shares of Boeing and also buying unlisted puts from a source it won't reveal.

The net: Solly is short a warrant, long the stock and long a put. Profit: dividends on Boeing, plus the spread between the warrant price and the put cost, minus financing costs.

Welcome to the action-filled world of derivative securities, where people in their 30s are pulling down annual incomes in the millions, where big brokerage houses are making record profits and where corporations are learning to borrow long term while paying short-term interest rates.

Derivatives are any securities that are not conventional stocks, bonds and mortgages, but abstractions of certain features of stocks and bonds. The category includes options, futures, synthetic securities and, in the broadest sense, mortgage-backed instruments that are entitled only to certain portions of the interest or principal thrown off a mortgage pool.

This sort of thing is all a bit convoluted, and, to the old-timers on Wall Street, bewildering. But it's second

nature to the new crowd of mathematically adept traders taking over the U.S. capital markets. Do you want a hedge that makes your Ginnie Mae portfolio act like a Treasury bill? Or a

security that performs as well as the German stock market yet incurs no German withholding taxes? Or a way to turn your corporation's fixed-rate debt into floating-rate debt? Wall



Gary Gastineau, manager of risk management research, Swiss Bank Corp.

You find two willing counterparties, and he'll find a way to swap their risks.

Street is ready to help.

At the ready for any investor's and any borrower's needs stands a deep market in manufactured securities: options, futures, interest-rate swaps, currency forwards, options on futures, even options on swaps—called swaptions, of course.

This is digital capitalism, done not in countinghouses but humming along on Sun Microsystems workstations. Old-fashioned plain vanilla stocks, bonds and mortgages are for the fogies. The action focuses on computerized financial instruments that didn't exist a few decades ago.

Derivatives are revolutionizing corporate finance. Derivatives enable as many as three-fourths of all corporate bond issuers today in the Eurodollar market to swap their obligations into floating-rate debt, thereby giving them all the advantages of long-term capital while they pay low short-term interest rates.

Three partners of Goldman, Sachs who manage departments that specialize in derivatives trading, Mark Winkelman, Jon Corzine and David Silfen, are among the highest-earning partners there. Goldman won't say how big their pot was, but to get an idea, note that Goldman's profits last year averaged \$8-million-plus for each of 161 partners. At least 40% of Goldman's \$1 billion in trading profits last year were in some way a function of derivative use.

Without derivatives George Soros and other currency speculators could not have marshaled the buying power to overwhelm Europe's central banks last fall. Using derivatives, a legion of young money managers are surging to the fore, taking huge risks and earning almost incredible returns.

Monroe Trout Jr. wrote his Harvard College ('84) thesis on stock index futures and went into the world to practice what he had preached. He had concluded that trading is potentially more profitable than investing for the long term and that derivatives offer an efficient means for trading. A pioneering and somewhat typical derivatives magnate, Trout, at 31, manages more than a half-billion dollars—and shares with his fellow managers the 22% performance fee charged to clients. In the pursuit of small, fast, leveraged gains, the fund holds as

Wall Street cuts a wider swath

NYSE member firm revenues (billions of 1992 dollars)



The introduction of listed options in 1973 and of stock index futures in 1982 helped fuel a growth era on Wall Street.

many as 100 different derivative positions at once. Last year, when the Norwood Index of publicly traded commodity funds was down 4.25%, Trout was ahead 21%.

Trout got there early, but he isn't lonely. The Chicago Mercantile Exchange alone trades \$12 billion of stock index futures a day, nearly double the volume of real stocks traded on the Big Board. A few blocks away, on the Chicago Board of Trade, futures and options on \$12 trillion worth of U.S. Treasury paper change hands in the course of a year.

Derivative instruments were, just a few decades ago, an obscure backwater of the securities business. Put and call options—an old form of derivative—have existed for centuries. But they were considered faintly disreputable. Today they and other more recent derivatives like swaps and collateralized mortgage obligations are transforming the way the world's capital is raised. It would be only a slight exaggeration to say that this modern era of capitalism is as great a transformation as was brought on by the acceptance of the limited-liability corporation more than a century ago.

Computers make all this magic possible. Lacking a machine like a Sun workstation—a product that has of late become a Wall Street staple—Trout wouldn't have his lightning speed and low spreads. No one would

attempt to carve up a Fannie Mae mortgage pool into 36 tranches of different maturities, as investment banks like Kidder, Peabody and Bear, Stearns routinely do now. Nor would traders at Swiss Bank Corp. be able to accommodate pension fund managers who want to instantly convert cash positions into the equivalents of corporate bonds or stock portfolios, with only a fraction of the usual transaction costs of assembling portfolios.

"Virtually any cash flow stream can be swapped for another cash flow stream these days as long as a willing counterparty can be found," says Gary Gastineau, manager of risk management research at Swiss Bank Corp.

By using derivatives, institutional investors can keep their basic portfolios in CDs or Treasury bills while gaining exposure to equities, bonds or mortgages. Such a technique cuts transaction costs and shortens turnaround time for asset allocation funds, which are constantly shifting among different types of investments. Mutual and pension funds could be fully invested in favored stocks while hedging against a bear market with index options or futures—a kind of reversion to the original hedge fund idea. Or a superbullish manager could be fully invested in stocks while using some or all of the dividend income to leverage his bullishness by going long index options.

Think of all this as an adult Nintendo game with big dollar signs attached. Computers are a necessary but not sufficient condition for the changes going on in the securities business. The other half of the explanation lies in economic uncertainties—in particular, the increasing volatility in interest and exchange rates. These uncertainties translate into changing tastes by the end users of the financial services industry, tastes that can now be met only with help from fairly complicated derivatives.

Let the doomsayers decry the "casino society"; the fact is that traders couldn't make money from derivative securities if there were not a powerful demand for the financial products that are created with them. Is it a "casino society" that lets corporate bond underwriters use Treasury bond futures to hedge their inventories? If they couldn't hedge, they would have to charge higher markups to make up for the greater risk of doing business, and corporate borrowers would have to pay more for their capital. Without financial futures and other derivatives, thrifts would be hard pressed to hold on to portfolios of home mortgages without endangering their solvency. Derivatives, in short, increase the liquidity in the capital markets.

There are big bucks in liquidity, to judge from all the traders raking off a little spread from these complex transactions. A decade ago, what we loosely call Wall Street absorbed a bit over half of 1% of gross domestic product; today it absorbs a full percentage point. Much of that gain comes from the whole range of products called derivatives.

The busiest derivative dens are run by global investment and commercial banks: firms like Goldman, Sachs, Credit Suisse/CS First Boston, Bankers Trust, Morgan Stanley, Salomon Brothers, Merrill Lynch, J.P. Morgan, Société Générale and Swiss Bank Corp. Their multibillion-dollar capitals, high credit ratings and mathematicians make them the natural engineers and designers of digital capitalism.

In 1993 these giant brokerage houses sit at the hub of a global bazaar

Let's swap

If it weren't for interest-rate swaps, many borrowers would be unhappily paired with lenders. At the short end of the yield curve, the unhappy couple consists of commercial bank customers. The lender might be a depositor who wants quick access to his money. The borrower, meanwhile, might be a small-business owner. She's likely to get stuck with a floating-rate loan, because that's how the bank matches up its assets and liabilities—by keeping both short in duration. But she doesn't want to take the risk that her interest rate will someday spike upward.

Business owner

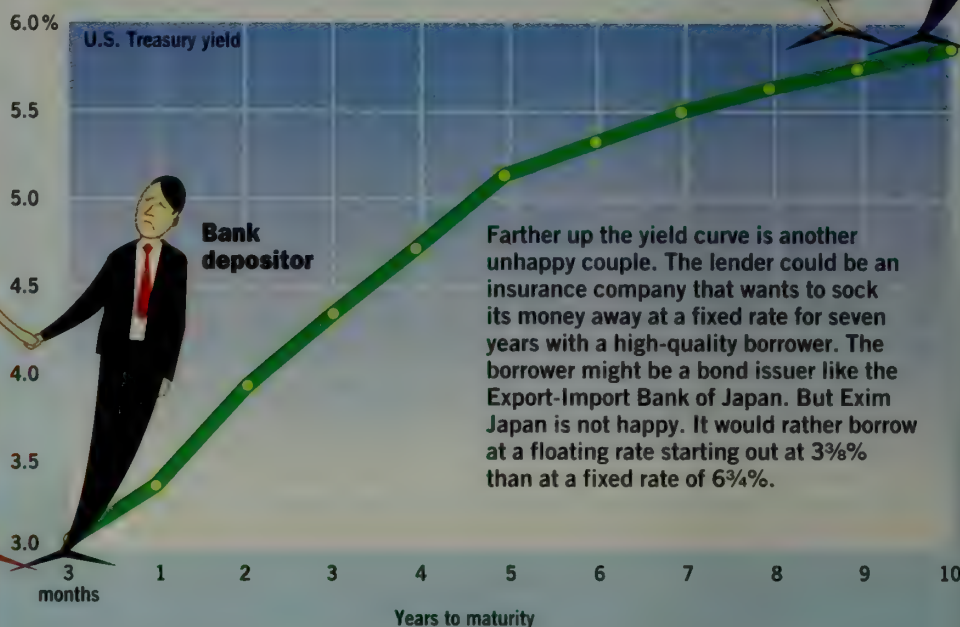


Bank depositor



Insurance company

Bond issuer



offering an infinite number of customized products. Bankers Trust, for example, uses derivatives in 80 different worldwide markets, involving currency, interest rates and equities.

The big investment firms both execute orders for customers and trade for their own accounts. Derivatives make it possible to earn handsome markups without tying up very much capital.

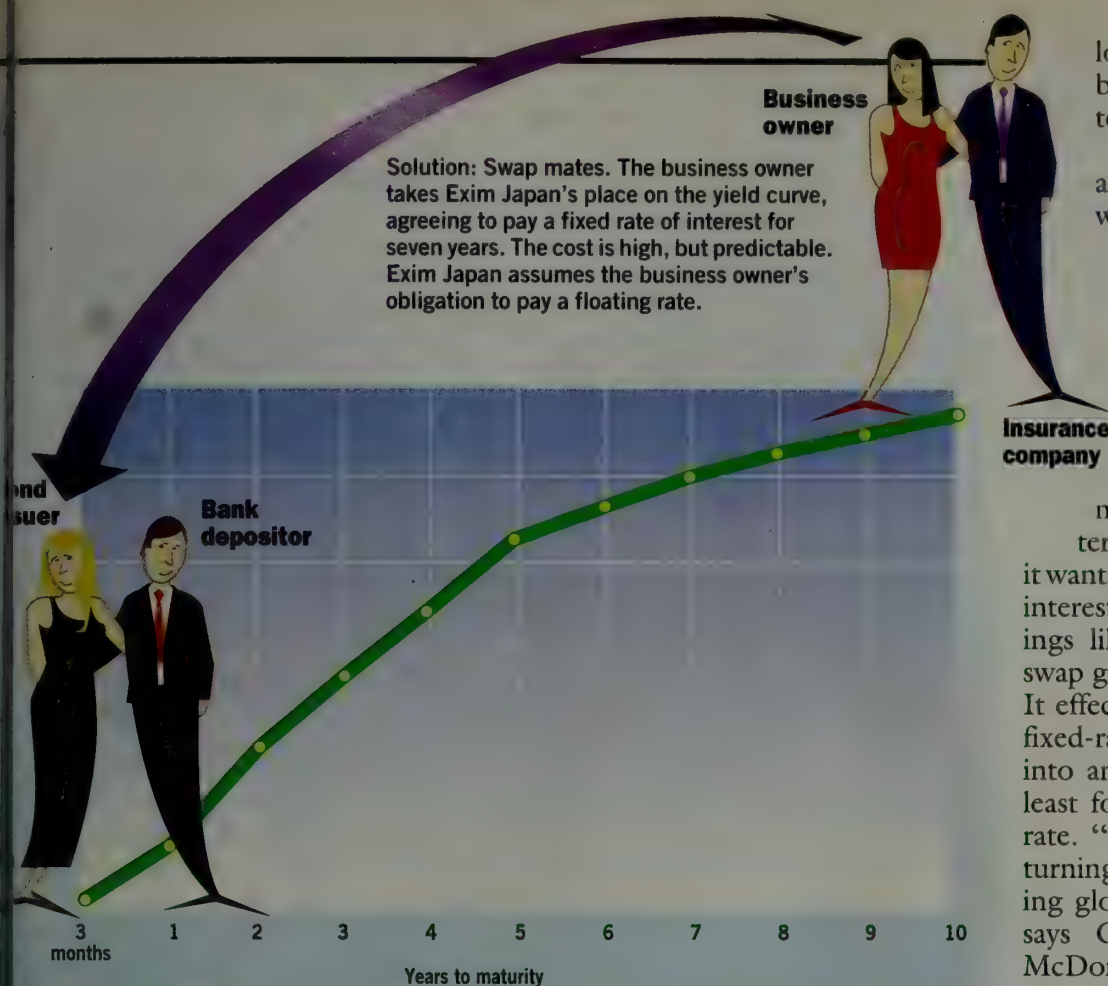
Although the investment banks can and do take big risks—witness the \$250 million Salomon Brothers lost early this year, reportedly by speculating on the yield curve—they don't have to. They can make money either by repackaging financial products to make new ones or by arbitraging the ones already out there.

When, for instance, J.P. Morgan arranges an interest-rate swap, or Kidder, Peabody carves up a mortgage, or Dreyfus puts together a new "strategic" fund that will be pitched as the little investor's chance to get in on the derivatives market, then the business is repackaging.

Arbitraging, on the other hand, is the business of exploiting tiny dis-

crepancies between markets. Here's an example: Salomon Brothers, Morgan Stanley and other U.S. firms have been making a fortune off mispricings of the Nikkei 225 stock index future traded in Osaka (*see chart, p. 66*). When bullish sentiment sends the future to a fat enough premium to spot prices of Japanese stocks, the arbitrageur shorts the future and buys the stocks. When the future comes due, it necessarily converges in price with the stocks in the index; the arb pockets the starting spread between the two, less the cost of financing the stock purchases.

A third common use for derivatives is, of course, speculation. A derivative gives a speculator tremendous leverage. By laying out as little as \$1,000 for way-out-of-the-money options, a speculator could control as much as \$1 million worth of stocks, bonds or currencies. George Soros' Quantum group of funds last fall made \$1.5 billion by betting against weak currencies like the pound sterling and the lira. In a world without derivatives—with only cash exchanges of currencies—such a feat would scarcely have



losses incurred when the lira bonds became worth less in terms of other currencies.

Some derivatives customers are not reducing risk but rather walking up or down the yield curve. This gives rise to the huge market for interest-rate swaps, in which a lender or borrower replaces a floating-rate obligation with a fixed-rate one, or vice versa. Thus, for example, McDonald's Corp.

needs to tie down medium-term capital to build outlets, but it wants to take advantage of the lower interest rates on short-term borrowings like commercial paper. A rate swap gives it the best of both worlds. It effectively lets McDonald's turn a fixed-rate medium-term borrowing into an adjustable-rate loan that, at least for now, carries a much lower rate. "Then I don't face the risk of turning over commercial paper during global crises like the Gulf war," says Carleton Pearl, treasurer of McDonald's. Pearl says he's shaving as much as 300 basis points off his funding costs through interest rate and cross-currency swaps.

You may be wondering: If McDonald's is coming out ahead, doesn't there have to be someone coming out behind? Not necessarily. It is possible to have a capital market with four players, all of whom come out ahead with a rate swap (*see chart, above*). They do not all gain in the sense that they all increase their net income at the same time; that is indeed impossible. But the rearrangement of obligations could leave them all better matched to their financial goals—more content, if you will.

Think of a four-way swap as spouse-swapping. If Mary is unhappily married to Sam and Sue to Michael, it is not inconceivable that all four would be happier if Mary and Sue exchanged husbands. The switch doesn't increase the number of married couples, but it probably does increase the sum total of human happiness.

Consider this scenario. A hamburger franchisee gets his capital from a commercial bank in Chicago, where he can borrow only at a floating rate (say, prime plus 1%) because the bank simply can't risk loading up its balance

been possible. The speculators would have lacked enough capital to engage in a duel with central banks.

Some client servicing contains elements of both packaging and arbitraging. Last Sept. 30, at the peak of the European currency turmoil, HD International, a big British fund manager, wanted to switch its assets from the German and French stock markets to the U.K., Swiss and Dutch markets. It wanted to do it like right now. Goldman, Sachs bought the equity positions in the stocks HD wanted to sell and simultaneously sold to HD stocks the money manager wanted to buy. Goldman then hedged itself as best it could with stock index futures in markets of each nation. It was an intricate and possibly risky deal, but HD got what it thought it needed, and Goldman's fee was approximately 1% of the \$494 million trade, more than any institutional trader could make merely placing a buy order in the same shares.

Are derivatives just for speculators and tax avoiders? By no means. Most derivative customers, says Allen Wheat, chief executive of Credit

Suisse Financial Products, are laying off risk. The biggest hazard for many a business is uncertainty in the pricing of its raw commodities and its finished goods. So an oil refiner will lay off this risk by buying oil futures and selling gasoline and heating oil futures. Or a mortgage banker making commitments to home buyers will simultaneously make offsetting commitments in the Ginnie Mae futures market. Or McDonald's Corp. will buy mark/dollar forwards and options that will protect it if currencies shift and the cash flow it makes in Germany converts into a disappointing number of dollars. Farmers have been doing the like with food prices ever since the Chicago Board of Trade opened trading in corn and wheat in 1848.

Last fall, during the European monetary breakdown, "the degree of trauma was alleviated by derivatives, which redistributed risk," says Credit Suisse's Wheat. Holders of Italian bonds used derivatives to take most of the currency risk out of their holdings. They shorted the lira against the German mark. Profits from shorting the lira compensated them for capital

sheet with any assets of longer duration than 90 days. Why? Because the bank's liabilities—checking accounts, for example—are of very short duration. A checking customer does not want to be told that he has to wait five years for his paycheck to clear.

The restaurateur, meanwhile, would much prefer the safety of a fixed rate over the next five years, even though the longer-term loan will cost him plenty. Indeed, the yield curve is so steep these days that seven-year Treasury notes yield percentage points more than six-month T bills.

floating rates. After all, this company is not going to be bankrupted by a sudden jump in the prime, and the yield curve is so abnormally steep that borrowing at the short end is irresistible for borrowers who can stomach the risk.

Solution: rate swaps, mediated by banks or securities firms. In a rate swap, no principal changes hands, just exposures to the yield curve. The hamburger outlet, in effect, picks up Exim Japan's obligation to pay a fixed rate over seven years, while Exim Japan assumes the hamburger outlet's

particularly want to own shares of other German companies may nonetheless find it profitable to buy \$1 million worth, then hedge away the equity exposure by shorting \$1 million worth of the DAX 30. The German shareholder gets the tax benefit that flows to a corporate investor but none of the risk.

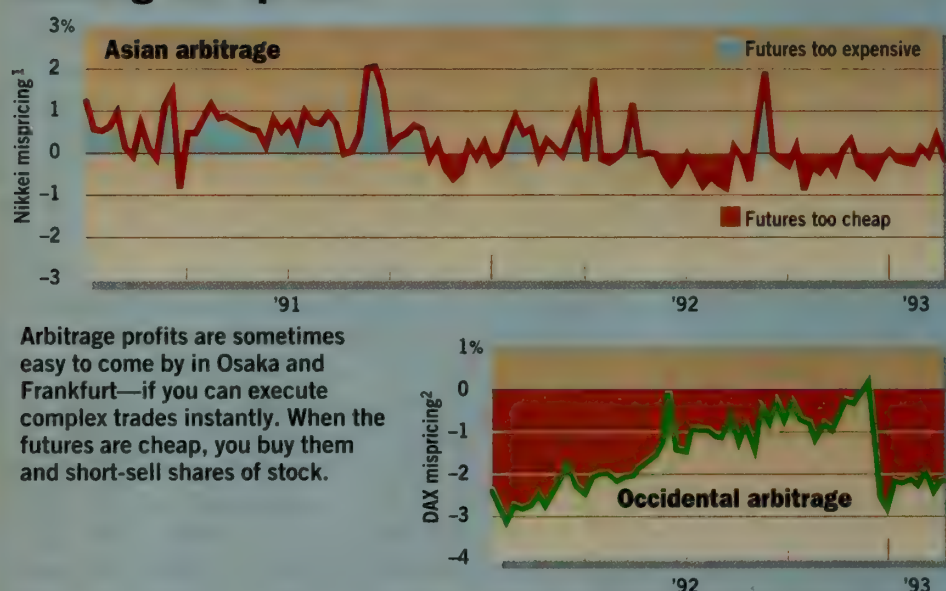
Now suppose that a pension fund on the other side of the ocean wants to own \$1 million of German stocks. It can profitably lend out its shares to short-sellers without reducing its exposure to the German stock market.

All we need to complete the loop is a middleman like Goldman. It borrows shares from the U.S. pension fund, promising to replace them someday and to refund lost dividends. Goldman sells these shares to Germans who want to be record owners but don't want the attendant equity risk. Those German holders hedge their purchases by shorting DAX 30 futures. Goldman goes long the futures at the same instant it shorts the German stocks. The loot to be divvied up is the German tax benefit, and each of the three players gets a piece of it.

To a degree few laymen understand, the world banking system is waist-deep in derivatives. As middlemen, banks depend on swaps for trading income. As principals, they can as readily use swaps to even up their own balance sheets. For instance, a year ago Banc One Corp., the nation's eighth-largest commercial bank, had an unbalanced balance sheet with liabilities (like term CDs) far longer in average maturity than assets. Richard Lodge, the Banc One senior vice president in charge of funds management, could have cured the imbalance by borrowing short term and using the proceeds to buy \$12 billion of intermediate-term Treasury bonds. But that would have leveraged the bank's balance sheet. So Lodge arranged swaps in which his bank received a fixed rate of interest and paid out a floating rate. For example, Banc One received from a New York investment house the 4.4% rate on two-year Treasuries plus 1%, for a total of 5.4%, while Banc One paid the three-month London Interbank Offered Rate of 3¼% to the investment bank.

Trades like this one, nowhere visible on the Banc One balance sheet,

Booking the spread



Arbitrage profits are sometimes easy to come by in Osaka and Frankfurt—if you can execute complex trades instantly. When the futures are cheap, you buy them and short-sell shares of stock.

Calculation of neutral price for futures takes into account the cost of money and the dividend yield on stocks. ¹ Mispricing of nearest Nikkei 225 contract; not annualized ² Mispricing of DAX 30 contract; annualized.

Source: Goldman, Sachs & Co.

That steepness translates immediately into a similar yield curve for the restaurant owner: He's going to pay a certain spread over the relevant Treasury in any event. He's willing to pay the extra points of interest to avoid the risk that the prime will spike up to 15% and bankrupt him.

Now add two more players to the drama: a bond issuer and an insurance company.

The bond issuer might be Export-Import Bank of Japan. Its size and prime credit quality give it access to a credit market the restaurant owner doesn't have, namely, publicly traded seven-year notes. The notes are fixed-rate because that's what Exim Japan lenders—pension funds and insurance companies, for the most part—want. Exim Japan's treasurer, however, is willing to take a chance on

floating-rate exposure. No risk of principal is involved since the players are swapping only streams of interest.

The range and possibility of derivatives is limited only by the speed of computers and the ingenuity of the human mind. Goldman, for example, does a thriving business playing German stock index futures against German stocks, and one big reason for the availability of profitable trading opportunities is the peculiar German tax structure. The tax system rewards German investors for holding German stocks while penalizing foreigners for holding German stocks. Yet both Germans and foreigners want international diversification. The mechanism for making both sets of investors happy is the DAX 30 Index future traded in Frankfurt.

A German corporation that doesn't

Take
A Closer
Look.

"We've been working together for twenty years and our relationship couldn't be better."

Tom Briskin, EVP, CFM International

Think of French imports and what comes to mind?

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Ben Franklin might have brought these things back from Paris in the 1770s. And you may still buy them today, in France... or at home, in American stores.

But, these celebrated symbols of creativity are no longer France's leading exports to the United States. The leading exports are efficient, high performance industrial products and technologies.

Take a closer look at the expanding area of **environmental technology**. France has created an ultrafiltration process that helps American municipal water systems meet increasingly stringent water quality regulations.

A solid waste treatment method allows for the composting of municipal trash in

an average of just 28 days plus curing.



Jacksonville, Florida Skyway

Oil clean-up techniques solve tough challenges like the Alaskan oil spill in 1989.

And French technology is also at the forefront in air, sea and land **transportation**.

The TGV, high speed trains, set a world record of 320 mph, with commercial speeds in excess of 180 mph.

French airplane engines power aircraft carrying over 600,000 passengers around the world every day.

French air traffic control, navigational and landing equipment ensure safer passage for American air travelers.

French shipyards build sea-going vessels from luxury cruise liners to natural gas carriers, from nuclear submarines to innovative pleasure and racing boats.

French subway cars carry passengers on New York City's MTA and San Francisco's BART.

Fully-automated French mass transit control systems manage the Los Angeles and Washington, D.C. subway systems and will begin operation in Baltimore in 1994.

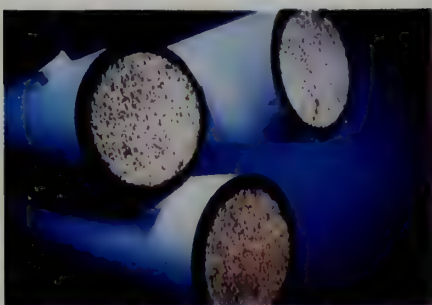
And a French "automatic people mover" now operates in Jacksonville, Florida and is ready to begin service this year at O'Hare International in Chicago—the world's busiest airport.



Sunshine Skyway Bridge, Tampa, Florida

America takes to the road with French designed and produced auto components from lights on the outside to seats on the inside to many parts under the hood.

France is also leading in automotive technologies:

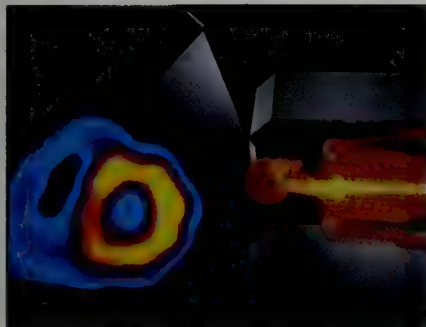


Membrane filtration water treatment technology

- Parts recyclability
- Electric cars
- And driver guidance systems.

Pioneering in medical research is another French tradition:

Pharmaceuticals to treat infectious diseases, cardiovascular conditions and mental illness.



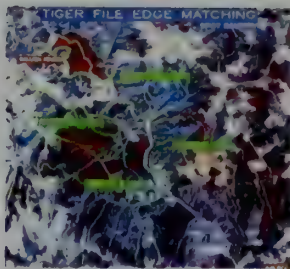
Nuclear medicine images
sophycamera DST
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Innovative **medical technologies** like soundwave, microwave and radiation treatments.

French **infrastructure technologies** are building bridges in Hawaii and Florida and many cities in between... paving roadways across the United States... and providing interactive road signs and systems for America's highways.

State-of-the-art **computer technologies**, developed in France, offer American cities and the U.S. military satellite imagery for weather mapping and mission planning.

Software and compatible programs allow industries from financial services to telecommunications greater and more flexible access to stored data and information.



Satellite imagery

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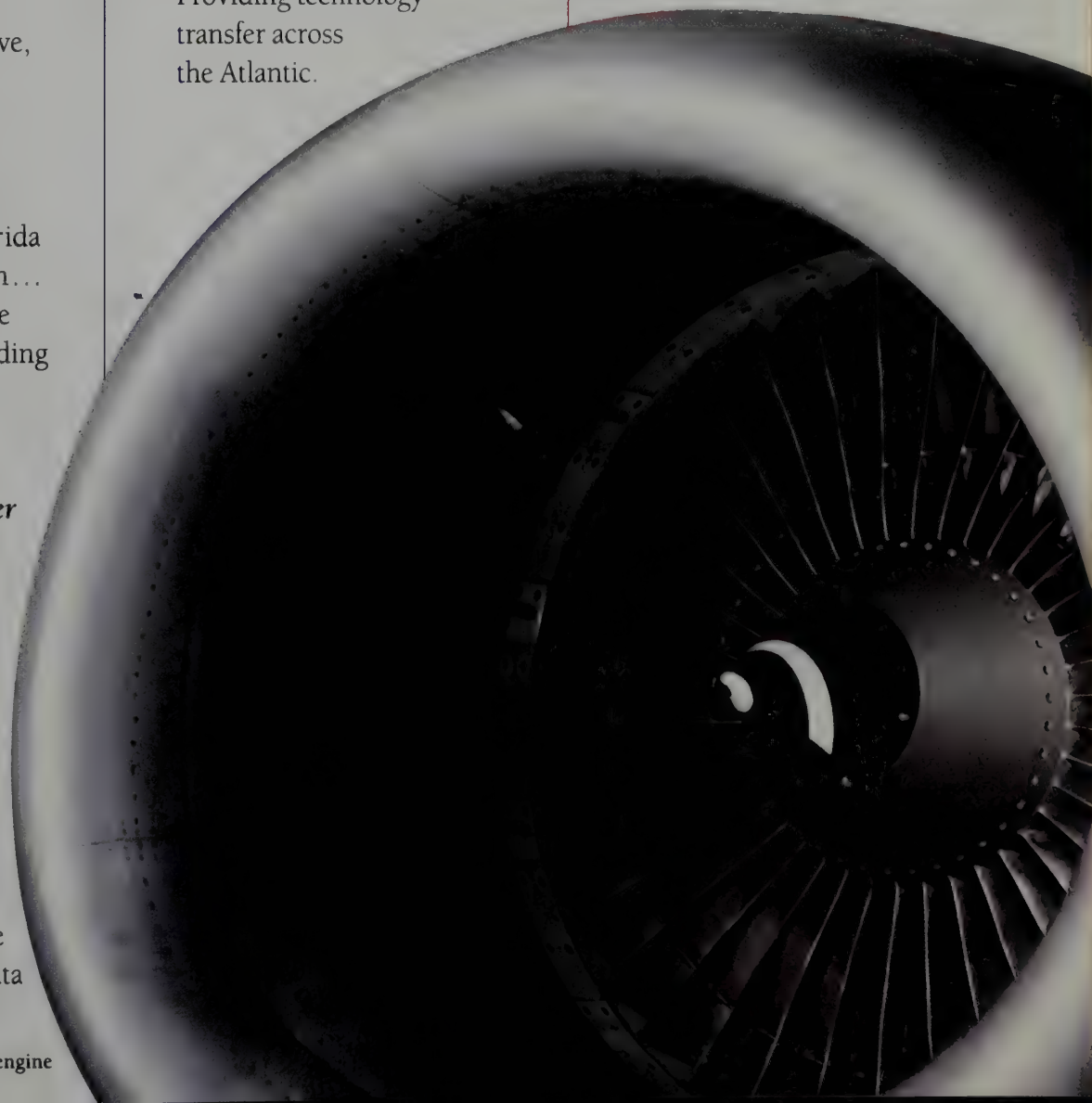
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Technology that delivers



Jet engine

Take A Closer Look.

"Axyal was a key member of the Bechtel team, providing communications and central control for the Los Angeles subway system. This technology is such an important part of a transit system. When the system was hooked up, everything clicked."

Ted Lewis
Engineering Manager, Communications
Rail Construction Corporation
Los Angeles County Transportation Commission

 "A key benefit of our Skyway downtown transit system is its reliability. Matra's automated technology has provided us with a 99.9 percent on-time performance rate."

Miles Francis
Executive Director
Jacksonville Transportation Authority

 "Technomed is on the cutting edge of medical technology. Using soundwaves and microwaves (currently under FDA trials), they deliver energy to a highly specified target and treat kidney stones and benign prostate enlargement. And without invasive surgery! It's clearly the wave of the future."

Dr. Kevin Tomera, M.D.
Mayo Clinic, Jacksonville, FL

 "They're continually striving to make things better—and they do. They've bent over backwards for us. I'd recommend them in a second."

Dennis Hanselman, Director
PrairieLand Solid Waste Facility
Truman, Minnesota

"If JMI told us they would have a particular design completed by a certain date, it would be done. The entire construction schedule for this project depended on it and we were able to plan accordingly."

Ross Gilmour, Project Engineer
SCI Contractors, Inc./EE Black, Oahu, Hawaii

 "It's good enough for government' isn't acceptable any more. In the public sector, we need value-added service and top quality products. And our French partners, **ELF ASPHALT**, clearly met those demands for the Indiana Toll Road."

John Piraccini, Director
Indiana Toll Road

"To date, American satellite imagery technology has had to play catch-up with the French. And that competition has spurred those U.S. companies forward to match the French challenge—led by **SPOT IMAGE**."

Richard B. Lacy
Remote Sensing Manager
South Carolina Land Resources
Conservation Commission

 "France's experience in videotex—Minitel information services—is second to none. They know the technology better than anyone else and we are gaining from that expertise. We have an ally in this industry that's supreme."

Denis Stamaris, Marketing Manager
US WEST/Community Link Service

BUSINESS
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had enormous consequences: The swaps generated some \$210 million of aftertax income, or 27% of the bank's \$780 million net for the year.

Does it all sound remote? If you have a home mortgage you may be close to the action without realizing it. Homeowners have created huge demand for such derivatives as collateralized mortgage obligations (FORBES, Mar. 1) and bond options.

Once upon a time, when the yield curve was a bit flatter and rates were a lot more stable, homes were financed this way: Savers would deposit small sums in banks, thrifts and insurance companies, and the financial institutions would invest the money in long-term, fixed-rate home loans. The duration of these mortgages was fairly high and fairly predictable.

Then, in the 1960s, came interest-rate fluctuations. At roughly the same time, courts, regulators and/or legislators decreed that lenders could not impose prepayment penalties on homeowners who paid off their loans early. The crusaders for homeowner rights probably didn't realize it at the time, says George Benston, a finance professor at Emory University, but they were thereby injecting a mandatory call option into an otherwise simple debt instrument. How so? If interest rates fall, the homeowner has the option of paying off the balance early by moving or refinancing. If rates rise, he sits on the mortgage—and enjoys an interest rate bargain.

In 1993 you scarcely flick on the tube before some well-coiffed newsreader—probably uncertain exactly what it is he or she is declaiming about—announces such and such a change in interest rates. Much of the public watches intently, ready to refinance at the drop of 150 basis points. The result is that today's mortgage has no ascertainable life span and has a value that rises and falls with decreases and increases in the volatility of interest rates.

A mortgage lender, in effect, has a long position in a long-term, fixed-rate bond, coupled with a short position in bond calls. That strange object doesn't match the investment needs of any ordinary lender. A pension fund or insurance company wants to invest at fixed rates over long terms. A bank or thrift wants to invest at vari-

Bath Falkenberg



Richard Lodge, senior vice president, Banc One Corp.

Interest-rate swaps? This bank eats its own cooking.

able rates, because depositors want variable rates. None of these lenders has any particular desire to take short positions in call options.

How can lenders' and borrowers' desires be matched? With derivatives. A fixed-rate mortgage, for example, can be carved up into slices, or tranches, so that most of the slices behave like fixed-rate, fixed-maturity bonds of various maturities, while the undesirable call position is concentrated in a high-risk residual slice sold to speculators. Alternatively, the bank could persuade the homeowner to take an adjustable-rate mortgage, reassuring him with a lifetime cap on possible rate increases. But then the bank has to hedge away the risk embedded in that lifetime cap. Its computers might tell it to do that by buying an out-of-the-money put option on Treasury notes.

You can no more stop this kind of progress than you can stop the changes that computers are working in our daily lives. New derivatives are being invented almost weekly, one of the most promising being a venture by Richard Sandor, formerly of Kidder, Peabody, who proposes creating derivatives that will enable insurance

companies to parcel out risks. The process of creating this synthetic security is only in the early stages.

Don't be surprised, however, if derivatives create scandals and shocks. And don't think that the politicians of the world won't try to "protect" us all from their consequences.

A 1988 U.S. Supreme Court decision declared that losses corporations suffer on their hedging transactions are to be treated for tax purposes as capital losses, not ordinary losses. So if McDonald's loses money shorting the deutsche mark while making a little more than expected converting its German profits back into dollars, it may not be able to offset the one against the other. Capital losses can be used only to absorb capital gains, which not all corporations have in plentiful supply. Wall Street is lobbying desperately to get the decision overruled. Fortunately for Wall Street, more than a few of its luminaries capably moved into the Clinton camp last year.

There is the larger issue of whether Wall Street can contend with all the risks created, ironically, by this grand movement to risk control via derivatives. The risks are daily becoming

apparent. Recently a trader for the Dutch bank ABN Amro, having evidently bought sterling options at the peak, has been indicted for trying to hide a \$70 million loss. What horrors lie tucked away at other banks for auditors to uncover too late?

Moreover, some of the same corporate treasurers who now look like heroes because of interest-rate swaps that enable them to pay short-term rates on longer-term borrowings could be in for a mighty shock. A

sudden spike in short-term rates would cost them dearly.

Goldman and the other brokers go to great lengths to limit their risks; Goldman even claims that a simultaneous default by all of its swap counterparties would cost the firm less than a month's profits.

Maybe so, but Fischer Black, coauthor of the Black-Scholes option formula of 1973 and Goldman's derivatives theorist, concedes: "We can't track everything perfectly. It's a never-ending

task to identify possible glitches."

Such inevitable explosions will provide fuel for the critics who long for a simpler variety of capitalism—or for no capitalism at all. But the transformation cannot be undone. Nor should it be. Mankind would not have forgone the internal combustion engine and all the benefits it has brought even if it had known that far more people would be killed in car accidents than had been killed by runaway horses and overturned buggies. ■

A piece of the action

THE BIG BOYS trade more stock index futures than they trade stocks. What about small investors? If you don't own any futures, are you missing something?

Depends on what you are up to. If you want to gamble or to hedge an existing portfolio, stock and bond futures can be quite handy. But they usually don't make sense as a long-term substitute for ordinary securities.

For the gambler, futures can be tantalizing. Someone who bought the March Treasury bond futures contract the morning before President Clinton's economic program speech would be sitting on a fat profit now. One contract calls for the purchase of \$100,000 of bonds of a specified maturity and coupon. You can control one contract with, say, only \$4,000 of margin in a commodities account. With interest rates tumbling, those long bonds have appreciated 4.5%, so you could have better than doubled your money since Feb. 17.

Of course, if rates had gone the other way, your equity would have been wiped out.

Not for pikers. Merrill Lynch won't even let you touch futures unless you have a net worth of \$250,000 and an income of \$50,000. Discounter Charles Schwab won't take the order at all.

What about investors of substantial means? Is it better to own \$200,000 of Treasury bills plus two bond futures than to own \$200,000 of T bonds? Not in a bull market. Profits on futures trades are taxable at year-end, even if the positions are left open, and they are fully taxable at the state level. Contrast the lucky fellow who buys a wad of real Treasury bonds just before interest rates go down. He doesn't have to realize a capital gain at all; he can simply collect the fat coupons for 30 years—and pay no state income tax on them.

If you do want to invest in derivatives, maybe you're better off letting a mutual fund do it for you. Some have used futures and options very effectively. The Pimco Total Return Fund, for example (*FORBES*, Mar. 15), has 35% of its portfolio in Treasury futures. Because these futures can be traded

more cheaply than the cash market, they are ideal for an actively traded fund like this one. You can buy Pimco directly, with no load, for a minimum \$500,000 investment, or buy in small amounts through Schwab and pay a small fee.

A lot of funds are authorized to use futures in a pinch. The fund manager could meet a sudden rush of redemption orders by shorting a stock index future and borrowing cash. Then he wouldn't have to unload thinly traded stocks at distress prices.

Dreyfus has, since 1987, been pitching its Strategic funds as equipped to use derivatives to handle any kind of market condition. Results have been mixed; the best of the lot is Dreyfus Strategic Income, up an average 11.6% a year since 1987.

Fidelity's four-year-old Asset Manager Fund, a no-load flexible portfolio fund, uses derivatives to shuffle holdings between equities and fixed income, or shift emphasis from the U.S. to foreign markets. The fund is under the management of Robert Beckwitt, a 34-year-old with a finance degree from MIT. He has 10% of the \$4.3 billion fund in deriva-

tives, with an emphasis on S&P Midcap futures. Beckwitt says middle-tier companies should outperform the big companies. He has also used Euro-dollar futures to make bets that short-term interest rates would fall worldwide.

Banks and brokerage firms have begun to create low-risk derivative investment products for high-net-worth individuals. Bankers Trust, for example, offers a CD whose interest is in effect siphoned off to buy options on the S&P 500 or the Nikkei 225. You get an equity kicker if stocks go up, but your principal is not at risk. Merrill Lynch offers a similar product called Mitts, whose shares trade on the New York Stock Exchange.

Merrill also recently launched a security that gives holders a chance to profit from a decline of German interest rates without being exposed to a decline in the value of the deutsche mark.

Don't be surprised to see ever more creativity in the invention and marketing of exotic investment products. Just remember that the power to use derivatives is not synonymous with the talent for making money.

—R.L. and W.H. ■



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What makes President Clinton think his tax hikes will shrink the deficit? Since 1947 federal spending has gone up by more than \$1.50 for every \$1 of new revenue.

"Spending, stupid!"

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

PRESIDENT CLINTON'S official report on his grandiose economic program is entitled *A Vision of Change for America*. It might more accurately be called *Clinton in Wonderland*.

In the President's vision, "the problem of the structural deficit is rooted in the early 1980s, when we cut income taxes and massively increased defense spending."

Here "taxes" is a slippery word, exploiting the confusion between tax rates and tax revenues. Tax rates indeed went down during the early 1980s, but tax revenues rose. Taking the Reagan-Bush years together, the increases in tax revenues far exceeded the increases in defense spending. You cannot explain the deficit that way—except to people who don't know the facts, which apparently includes much of the media.

"Apart from growth miracles, there are only two ways to reduce a deficit: spending can be cut or taxes can be raised." This plausible-sounding statement from *A Vision of Change for America* is as dead wrong as its statement attributing deficits to tax cuts and defense spending.

If total spending had just been held

where it was when Ronald Reagan took office, there would have been a budget surplus by the end of the first Reagan Administration—whether you count on-budget receipts and outlays or off-budget receipts and outlays. In other words, with no cuts in total spending and tax rates no higher than they were when President Reagan took office, the deficit would have been ended with the rising tax revenues from the growing economy of those years.

If President Clinton thinks that the actual economic growth achieved during the Reagan years was a "miracle," then let him say so.

The sign hanging in Clinton campaign offices last year—"The economy, stupid!"—should be replaced by one that says: "Spending, stupid!" It is runaway spending which has produced the deficits and the growing national debt.

Government receipts doubled in a decade, yet the national debt kept rising. There is simply no way that anyone can raise more money than Congress can spend, no matter what the tax rates are on the rich, the poor, or the other 90% of the population.

A study by Professors Richard Vedder and Lowell Galloway of Ohio University shows that spending has always gone up by more than any tax increase—for more than a century. If you think that this Congress is going to be different, then you have a faith which passeth all understanding.

Since 1947 federal spending has gone up by more than \$1.50 for every dollar of additional revenue. We are never going to reduce the deficit that way, any more than a dog is going to catch his tail by spinning faster.

President Clinton is not a stupid man. Indeed, he has done a masterful

job of selling his program. Yet at the heart of that program is the fundamental fraud that inadequate revenues have caused the deficit.

Perpetuating that fraud is the key to the President's "new" program—which is to keep on increasing spending. Calling this new spending "investment" changes nothing, especially since things like food stamps and more money for the Equal Employment Opportunity Commission are included under "investments."

Although *A Vision of Change for America* deplores "statistical manipulation" by prior administrations, and claims to provide "no gimmicks and promises no instant gratification," in point of fact, it proceeds to do just that. Hikes in spending and in tax rates are immediate, while most of the savings from spending cuts are projected years away. Its projected spending cuts for 1993, 1994 and 1995 combined do not add up to as much as the cuts projected for 1998 alone.

Moreover, loose talk about how many tax dollars are going to be raised by this or that legislation blithely assumes that we can predict how much revenue will result from particular tax rates. If human beings were brainless automatons who continued to behave the same way, regardless of the tax rate, then it would indeed be just a matter of simple arithmetic to determine how much revenue will come in.

But, once we realize that other people beside the anointed have brains, and that taxpayers' foresight as to consequences will change their behavior, then we are in a no-man's-land of economic speculation—not only as regards revenues, but also as regards the direction the economy will take when investors run for the tax shelters.

The power to tax is the power to destroy, as Justice John Marshall said long ago. So is the power to mandate costs and control prices.

Controlling health care costs has been a centerpiece of the Clinton program. But what does "controlling health care costs" mean, other than price controls? And what do centuries of history of price controls show, other than a decline in the quantity and quality of whatever has been controlled?

We definitely need that sign that says, "Spending, stupid!"

Chipcom gambled on a novel way of enhancing its IPO. Watch out for copycats. They may not be as smart—or as lucky.

Prettying the prospectus

By Richard Phalon

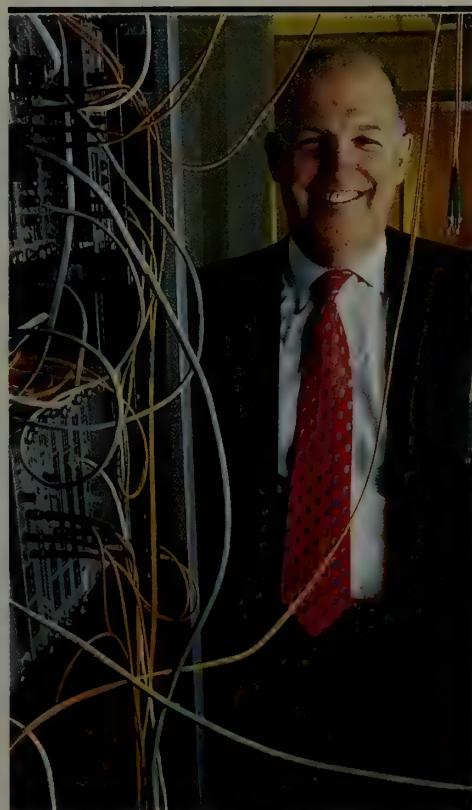
THERE ARE MORE high-wire acts among the high-tech companies coming to market these days than Barnum ever dreamed of, but few have managed to put on as gravity-defying a show as Chipcom Corp.

This smallish (\$87 million revenues) company doubled its net for the second consecutive year in 1992 (to \$8.5 million) on an 82% gain in sales. It did so against such well-entrenched competition as SynOptics Communications and Cabletron Systems.

But the upfront numbers tell only part of the story of this Southborough, Mass. outfit, whose intelligent hubs link and monitor multilevel computer networks for a growing string of blue-chip customers like Chevron, 3M and Hoffmann-La Roche. A red-hot product line has helped Chipcom accomplish all this, and so has a management that can best be described as heads-up opportunists. Look at the imaginative and controversial way President John Robert (Rob) Held and his chief financial officer, Robert Badavas, starved for equity, went about the crucial step of tidying up Chipcom's income sheet before taking the company public in May 1991.

"We didn't want anything that would put our profile down," says Badavas. Chipcom had broken solidly into the black in the U.S. in 1989, but pretax losses on its European operation continued to mount and seemed likely to get worse.

If the Chipcom prospectus was to wear its prettiest face, Europe and its drag on reported earnings would have to be covered up. Not that Held and



Chipcom's John Robert Held

"We wanted to build Europe, but the priority was the public offer."

Badavas were embarrassed about their European venture; it held tremendous long-term promise. But how to get those losses off the profit and loss statement?

The solution: a deal with the Boston-based Atlas Venture group. Atlas and a cluster of European partners got ownership of the newly established Chipcom Europe and agreed to put up \$3.3 million to get it off the ground. Chipcom got a management contract to run the operation day by

day and an outright call to buy it back from the Atlas group within two years for 471,430 shares of common stock.

The beauty part of the deal: It all happened off the balance sheet. "I didn't want to trash my P&L," says Held. "We wanted to build Europe, but the first order of priority was the public offer."

Rock and roll! Chipcom picked up \$12.8 million (at \$12 a share) on the initial offer and another \$12.3 million (at \$18.75 a share) from a follow-on seven months later. With the stock sales out of the way, Chipcom negotiated an early buyback from the Atlas group at a discount—some 380,000 shares instead of the originally stipulated 471,000. Even with the discount, the Atlas group made about three times its investment and, like most of the other venture people who helped bootstrap Chipcom originally, is now out of the stock. Chipcom recently traded at 32¼, almost three times its offering price.

That problem solved, new ones loomed. Chipcom Europe was still losing money, and this would surely penalize the parent's reported earnings in 1993. Also, the buyback created \$8.5 million worth of goodwill that Chipcom would have to begin writing off.

Independent analysts like Andrew Schopick of Westport, Conn.-based Nutmeg Securities were quick to jump on adjusted numbers showing that the acquisition would have cut Chipcom's reported earnings for the first half of 1992 from 44 cents a share to 5 cents a share.

Rob Held counters that Chipcom Europe would have cost a lot more if he had waited for black ink before buying. He says the turn from red ink should come in the first half of this year, and what's the harm? Chipcom's domestic business has been strong enough to offset the drag of Europe, and even enabled it to do a tad better than its earnings estimates last year.

If Held's projections about continued strong U.S. business pan out, Chipcom will have gambled twice with its numbers and won both times. Don't be surprised if other companies try to hide lossmaking operations in a similar way. Assess any such with a wary eye. The copycats may not be as smart—or as lucky—as Chipcom. ■

Advanced plastics and composites have been a big disappointment to many a large company. So why are the venture capitalists moving in?

Tomorrow's biotech?

By Manjeet Kripalani with Tatiana Pouschine

VENTURE CAPITALIST Jean Deleage, who was one of the original investors in Genentech in 1977, thinks specialty materials will be tomorrow's biotech. In the past three years his firm, San Francisco-based Burr, Egan, Deleage & Co., has raised nearly \$20 million for three startups in the field. "Our job is to identify the industries of the future, and specialty materials is one of the most exciting," he says.

These new materials are specialized plastics or combinations of plastics and a variety of other materials that are put together to meet a particular application.

Peter Parker is a partner at Ampersand Ventures in Wellesley, Mass. Ampersand has invested \$100 million in specialty materials ventures.

Chemicals & Materials Enterprise Associates, formed in 1989 and situated in San Francisco, is a third venture group specializing in the area. It has raised \$40 million for 17 firms, mostly startups.

Put simply, specialty materials are petrochemical products with something else added. You can, for example, take polymers—that common plastic used in household goods and toys—and add fiberglass or carbon fiber. The combination becomes a high-performance, lightweight composite material, one that can make up the wing of a B-2 bomber, an America's Cup yacht or even a tennis racket. Such materials are also replacing traditional ones like copper, zinc, steel, aluminum and wood for many uses.

Tell a material designer what characteristics you want in your plastic or metal and he can produce the composite, in whatever quantity you

want. Take Arall, a new fiber produced by Akzo N.V., the Dutch chemical giant. Sandwiched between

aluminum sheets, Arall reinforces aircraft bodies and even golf club shafts to reduce a common cause of stress in the metal called fatigue cracking. The material is custom-made for each application.

Advanced ceramics, too, are specialty materials. They are traditional ceramics strengthened with silicon carbide; they replace metal in engine parts. Advanced ceramics, able to withstand high temperatures, made possible the catalytic converter, a pollution control device that has gone into every car produced in the U.S. since the mid-Seventies.

Yet, for all their potential, advanced materials have been a mine field for large corporations, which have lost hundreds of millions of dollars. Some



San Francisco venture capitalist Jean Deleage

"Our job is to identify the industries of the future, and specialty materials is one of the most exciting."

of the companies expected the Defense Department to fund the construction of jet fighters and helicopters that would use carbon fiber to reinforce composites in body panels, for example. When the business didn't develop according to expectations, they exited. Union Carbide sold out to Amoco in 1986. Now Amoco, too, wants out. In 1991 Britain's Courtaulds Plc. wrote off as much as \$30 million it had invested in carbon fiber. Last spring Germany's BASF got out of its entire advanced-composites business, which had revenues of \$60 million.

Many of the companies that had lost heavily betting on defense business concluded that consumer and industrial applications weren't materializing quickly enough to justify further expenditures.

The problem with commercial applications was cost. Aluminum, for instance, which makes up 75% to 80% of a passenger aircraft, is \$5 per pound on average, compared with \$35 for the competing composite material, which is a bonding of fibers.

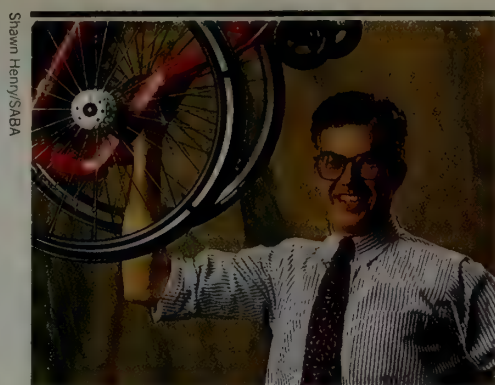
But the big companies may simply have been too early. Slowly, the cost gap is narrowing. Ten years ago aluminum cost \$3 per pound and composites \$70. By the end of the decade, the price differentials are expected to narrow further, giving a greater boost to composites. New uses are coming along almost every day.

■ Window frames, which ten years ago were mostly made of wood or aluminum, are now 35% plastic—engineered corrosion-resistant vinyl that provides improved insulation. By the end of the decade, 65% of window frames are expected to be vinyl.

■ Structural components in houses, housing panels and fire-resistant roof tiles are made of plastic. In Pittsfield, Mass., GE Plastics has on display the future home, about a third of which is made of advanced plastics and composites.

■ Bridge supports are being reinforced with composites instead of steel.

■ Thanks to a new phos-



Ampersand's Peter Parker

Aloft: A new-materials wheelchair.

phor thin-film coating, Maryland-based Optex Corp.'s 5¼-inch disc can store a 2½-hour feature film. It is the coating that allows the information to travel quickly: You can transfer a full-length movie onto the disc in two minutes via cable, satellite or telephone line.

While some big corporations have pulled out of specialty materials, others are getting more involved. Du Pont, GE Plastics, Hercules and Corning are investing substantial sums. Du Pont alone is spending \$700 million a year in research on advanced plastics, fibers, ceramics and composites. Other world players are Hexcel and Ciba-Geigy (see table).

Some big companies, perhaps motivated in part by expected benefits that President Clinton has promised smaller business, are joint-venturing

with smaller outfits.

Take Ethyl Corp. Since 1987 Ethyl has put \$35 million into Boston-based Gryphon Ventures. Gryphon invested in Optex, the fledgling disc maker mentioned above, in December 1987. Optex's technology traps electrons onto a disc and gives the disc multiple media uses—in music, film and computers. Ethyl and Gryphon may take Optex public but retain a healthy chunk of the stock.

Last October Monsanto acquired Diamonex, Inc., a company that makes new diamond coatings for the electronics and optical industries. The chemical giant had already contributed \$500,000 of the \$4.5 million the company raised after it was spun off by Air Products & Chemicals. Monsanto expects Diamonex to grow into a \$100 million business.

Venture group Chemicals & Materials Enterprise Associates has large corporate investors, including 3M, Ford, Exxon and Rhône-Poulenc. Through CMEA, these companies get a window on advanced materials research and products like Nanodyne Inc.'s new composite powder coatings for drilling tools.

Parker of Ampersand acts as a kind of marriage broker between small advanced materials outfits and giant partners. The company got into the field in 1990 when Alcan, the big aluminum producer, spun off 12 ventures, including some advanced ceramics businesses. Ampersand bought the businesses. The firm has recruited corporate partners for its ventures in advanced materials, including Akzo N.V. Since 1988 Ampersand has invested in 21 ventures. Of these, 3 have gone public and 3 have been sold to client companies.

Parker estimates that the potential market for new and advanced materials and chemicals is at least \$70 billion a year. Agreeing, venture capitalist Jean Deleage predicts that many of the big companies that pulled out will go back in—preferring to look a bit foolish rather than miss out on a good thing.

The material world

Company	Consolidated sales	Net income (\$billions)	R&D expenditure	P/E	Recent price
GE	\$57.0	\$4.7	\$1.9	16	87½
Ciba-Geigy	14.6	0.7	1.5	2	20
Du Pont	38.0	1.2	1.2	27	48¾
BASF	28.0	0.6	1.2	14	137
Amoco	28.2	0.9	0.3	36	55½
Union Carbide	4.9	0.1	0.2	20	17
Corning	3.7	0.3	0.2	23	34½
Hercules	2.9	0.2	0.1	19	71½
Courtaulds	3.4	0.3	0.1	NM	8½
Hexcel	0.4	def	—*	NM	9

Figures are for 1992 except BASF, Ciba-Geigy and Courtaulds, which are 1991; prices for these three companies are for ADRs. All figures exclude charges for extraordinary items.

*\$11 million. def: deficit. NM: Not meaningful.

Some bold, some timid players in the advanced-materials game. Staying in may be hard, but staying out is losing out.

You can't keep a good crook down. Even before he had finished probation for one security swindle, Melvin Lloyd Richards was launching another dicey enterprise.

So, I'm a felon?

By Pablo Galarza and Randall Lane



ALCO INTERNATIONAL Group, Inc. is a tiny medical products and shipping firm with a high-flying stock. It was trading over-the-counter at 3 cents in early 1991, skyrocketed to almost \$8 early this year, and has since subsided to \$5. Anyone who bought \$1,000 worth two years ago would have over \$150,000 worth today.

At \$5, Alco has a market cap of around \$55 million—pretty rich considering that its revenues were only a few million dollars last year and that it lost \$4.5 million, 42 cents a share, in just the first nine months of 1992.

What drove the stock up was word about Alco's Barrier Integrity Monitor System, an electronic device that alerts doctors if their gloves are torn during surgery. With a straight corporate face, Alco claims the product has a market potential of over \$1 billion.

More significant than Alco's products is the man behind the company: Melvin Lloyd Richards, a stock promoter with a colorful past. In 1984, as chairman of now floundering Unioil, Richards was investigated by the Securities & Exchange Commission for inflating the financial performance of the oil exploration concern; its stock surged 8,000-fold within a few months and then collapsed.

Nothing came of the 1984 Richards probe, but three years later the Justice Department won a conviction against him for criminal tax evasion, mail fraud and conspiracy in connection with a fraudulent uranium exploration tax shelter. Richards was put on probation for five years.

The probation apparently didn't redeem Richards from his larcenous impulses. Alco was founded in 1981 as a Florida horse-breeding company, merged in 1985 with a small containerized shipping firm and got into medical technology in May 1991, when it paid \$35,000 and 1 million shares for the Ovulometer, a gadget that charts a woman's ovulation cycle. The seller was a company controlled by Allen Stout, a longtime partner of Lloyd Richards'. A few months later Alco bought marketing rights to the surgical glove monitoring device.

Starting in mid-1991, Richards helped finance Alco through his financial company, San Diego-based Hampton Morgan & Co. Richards' firm got 625,000 Alco shares; by late

Nouveau smart.



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Experience
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February 1992 Richards, Stout and companies they were associated with controlled almost 60% of Alco's 8 million shares.

In July 1992 the Food & Drug Administration approved Alco's glove monitoring device, and the fat was in the fire. Within days Alco announced it had received orders for the device totaling \$11 million.

Only last Christmas Eve did Alco get around to announcing that the orders had been canceled a few weeks later. On Jan. 7 Alco's SEC filing about the canceled orders hit the financial wires. The very next day, Alco announced that a law firm representing some unnamed clients had contacted Alco's investment banker (read Richards) about acquiring the company. Alco stock rose to almost \$8.

The stock took a hit on Jan. 11 when the company announced that Nasdaq was looking into whether Alco still met the association's requirements. But in mid-February Alco claimed a group called the Scottsdale Group—really just a bunch of its minority shareholders, some with ties to Richards and Stout—announced that it had “acquired” 10% of Alco and intended to gain a controlling interest. The stock has since stabilized at around \$5.

Amid all this excitement, Richards and Stout were merrily selling. They began liquidating their holdings last year, well in advance of telling the SEC about the canceled glove orders. Insiders probably unloaded for around \$15 million Alco shares that cost them only a small fraction of that. To whom did they sell the shares? Need you ask? The public, of course.

FORBES spoke with several brokers at small regional firms. All told essentially the same story: They or brokers they knew were paid handsomely to sell Alco stock. “If you put clients into \$100,000 worth of the stock, they'd give you 25 grand,” said one broker, who admits he participated in the “commissions.”

Richards categorically denied that he improperly paid brokers to unload Alco stock. He was indignant that anyone would bring up his past. “Is it news that Lloyd Richards is a convicted felon?” he asks. “That's history.” A history that is destined to repeat, apparently. ■

John Alden Financial is an oddball insurance company with a distinctly superior record.

A horse of a different color

By Gretchen Morgenson

WHEN YOU THINK OF large, stockholder-owned insurance companies, what first comes to mind? Perhaps some of these attributes: a venerable past, going back to the 19th century; an unimpressive recent record, with a weak stock trading at or below book value; problem real estate loans; stodgy managers who own less than 1% of the company.

By those standards the Miami-based \$5.5 billion (assets) John Alden Financial Corp. is a real freak. Its past goes back only to 1961, when it started out as a credit-life sideline to a mail-order company called Alden's. The stock is doing fine: Since a public offering last fall, it has climbed 18%, to 17½, which is a nice premium to Alden's tangible book value (negative \$7.63 a share). Delinquent mortgages are only 1.3% of total assets. Finally, insiders have their own assets on the line. Chairman Glendon Johnson, 69, and other managers hold 16% of the stock, worth \$64 million.

Alden's main business (60% of its \$1.2 billion in revenues) is selling group health, life and disability policies to small businesses—156,000 of them. The company also has a small but rapidly growing line of individual life insurance. Here, the company's eccentricities really stick out: Alden markets no-load life insurance, a heretical concept in an industry that believes its product is sold, not bought, and sold only by real live agents.

Agents must eat, and that means

they must be paid commissions and incentives. In the first year 150% of a policy's premium typically goes to salesmen's commissions, junkets to Hawaii, advertising and other marketing expenses. As a result, seven or eight years typically pass before the underwriter breaks even on the policy. It takes even longer for the policyholder to get a positive investment return.

A nonsmoking male, age 49, might pay a premium of about \$12,000 a year to buy a \$500,000 whole-life policy from a commissioned salesman. After two years and a total expenditure of \$24,000, the buyer would have perhaps \$3,000 in cash value. Such a buyer could have obtained agent-sold term insurance, the kind that has no cash value, for total premiums of about \$4,000 for the first two years (and for considerably less if he got no-load term). So the buyer has in effect invested \$20,000 in the cash value feature of the policy. And what does he get for this investment? A return of negative \$17,000.

A no-load Alden policy, in contrast, would be sold by financial planners who charge their clients negotiated fees to set up comprehensive investment and estate plans. The buyer might pay as little as \$500 for the work done by the planner in selecting and applying for a policy. That cost would hit him only once. Premiums on the 49-year-old's policy would run only \$4,565 a year. At the end of year two, the policyholder would have



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Glendon Johnson, chairman of John Alden Financial Corp., on his farm outside Miami
The no-load cowboy.

\$6,255 in cash value.

Although Alden's sales of no-load insurance are small—some \$20 million—they are very profitable, with an aftertax return of 15% to 20% on the small amount of capital tied up. Johnson aims to rapidly expand this line of business.

A handful of other insurers are testing the no-load waters (*FORBES*, Mar. 2, 1992), but John Alden is the only large underwriter selling a full range of no-load products, including universal life, second-to-die life, term life and disability insurance. Alden Chairman Johnson doesn't claim no-load insurance will ever replace the more common type. "We deliver value to the marketplace, but it's not for everyone," is the way he puts it. "This is a frolic that fits our circumstance."

He means that in Alden's case, necessity was the mother of invention. In a 1987 leveraged buyout, an investor group led by Johnson bought Alden from Great Western Financial Corp. With a post-deal debt/equity ratio of 5-to-1, Alden could no longer write life insurance sold the traditional way, with large upfront payouts to salesmen that could be recovered only slowly from future premiums. The answer was no-load insurance, marketed to financial planners by banks of telephone salesmen (salaried, not commissioned) in Alden's 32 regional offices.

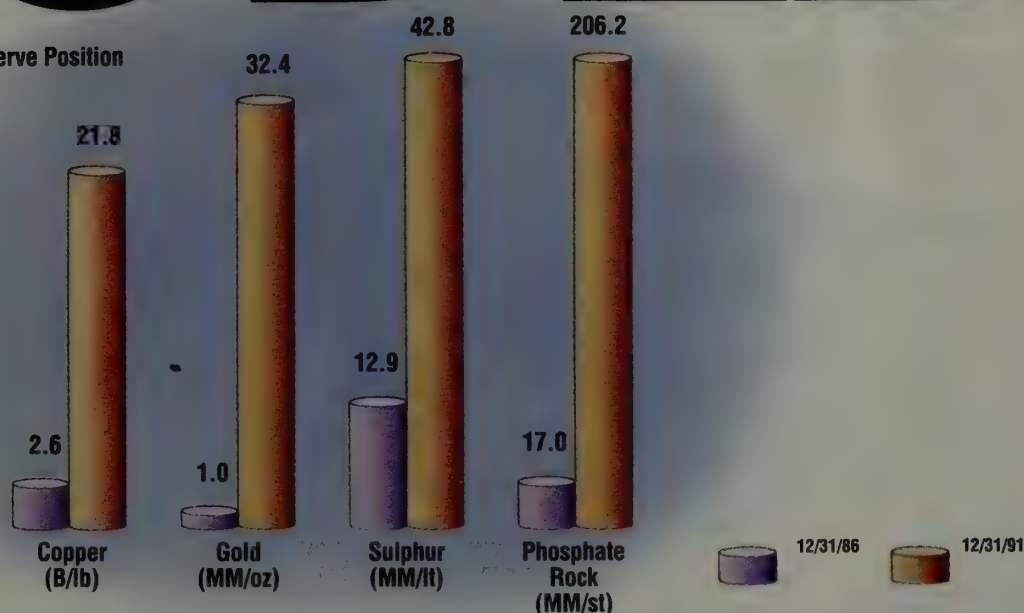
It helps, of course, that telemarketing comes naturally to Alden, since that is how it wholesales its group health and life policies to independent agents.

Last year Alden netted \$58 million, a fully diluted \$2.71 a share, up almost 200% from 1991. This excellent showing owes much to Alden's ability to grow without a proportionate increase in overhead: Since 1984, as Alden's assets and revenues have quintupled, its expense ratio has dropped from 30.3% to 25.7%.

The stock market nonetheless prices the stock at around six times earnings. It's the Hillary Clinton factor. Wall Street seems to be preoccupied with the risk that coming legislation on health insurance will damage Alden's core group health business. Chances are, though, that no "reform" will be so severe as to eliminate the need for claim processors, or to remove the advantages that go to the low-cost providers.

FULLY LOADED

Changes in Reserve Position
1986 to 1991



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**FREEPORT-
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David Lockton's Interactive Network provides a so-so product that's difficult to use. Customers are staying away. Investors should, too.

"We're the perils of Pauline"

By Lisa Gubernick

"THIS MAY BE the most important innovation since the introduction of television itself," announces David Lockton, chief executive of Interactive Network, Inc. What is Lockton selling so breathlessly? A 2-pound device that allows viewers to talk back to their TVs. Sort of.

For \$199, plus \$15 a month for the service, this device lets you play along with everything from an NFL football

game (guess the play) to *Jeopardy!* (guess the question) to *Murder, She Wrote* (guess the villain). For another \$10 a month you're eligible for prizes, like a trip to the Super Bowl.

Forget, for a moment, whether anyone needs or wants this gizmo, or even how it works. Tiny Interactive Network of Mountain View, Calif. was the biggest percentage gainer on the Nasdaq in the fourth quarter of

1992, its share price rising from 3½ to 12¾. At a recent price of 12¼, the company has a market capitalization of about \$90 million.

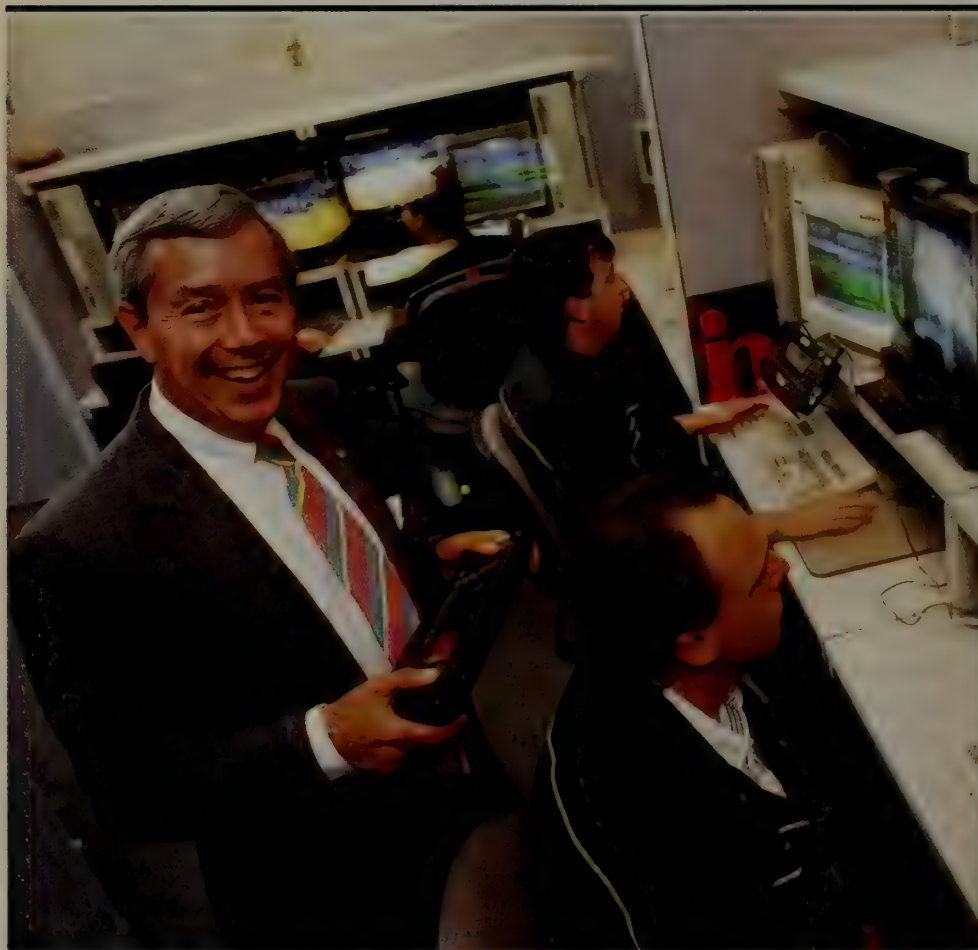
That's a pretty optimistic price for the stock of a company whose revenues last year were just over \$500,000 and which lost \$16.7 million. Interactive has spent much of its five-year life teetering on the brink of insolvency. But investors love a "story," and Interactive tells a story that brought in \$16.5 million in a 1991 public offering. On Feb. 25 PaineWebber and Montgomery Securities filed with the Securities & Exchange Commission to sell another 2.5 million shares, which would bring in \$30 million.

What's behind the story? Four years ago Lockton envisioned a subscriber base of 2.3 million by the end of 1992. He ended up with 3,300, 25% fewer than was projected as recently as last August. "It took us longer to launch than we thought," he says. Still, he insists his current subscriber base is twice as large as he anticipated.

Dave Lockton has gotten good at last-minute recoveries. "We're the perils of Pauline," he laughs. What he means is each time his company has been pushed to the edge of insolvency, it's been rescued—by no less than NBC, Gannett Co. and Cablevision Systems. Since Interactive's inception in 1988, this threesome has pumped over \$12 million into the company.

No question, 55-year-old David Lockton is a hell of a salesman. A former sports lawyer—O.J. Simpson was a client—Lockton arrived in Silicon Valley in 1981. That year he founded Dataspeed, Inc., which utilized an unused portion of the FM radio band to broadcast real-time stock quotations. Customers get the quotes through a hand-held device called QuoTrek. In 1985 Lockton sold Dataspeed to Lotus Development Corp. for \$6.5 million.

He then paid Lotus \$1 to buy back the rights to a patent application covering the technology that would become Interactive Network. A year later the patent was granted. Lockton put up nearly \$1 million of his own money to get the company started. The first chunk of outside cash came from NBC, which, together with a Canadian cable company, put up \$600,000. Lockton's cousin John



Interactive Network's David Lockton

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Lockton Jr., former president of Warner Amex Cable Communications, Inc., made the introductions and is now chairman of Interactive.

There's no question about the system's working. In a control room at the company's Mountain View headquarters, a team of specialists, called "data jockeys," analyze live and pre-recorded television shows. They supply data—options for the quarterback's next play, or multiple questions for *Jeopardy!*—synchronized with the events on viewers' televisions. That information is transmitted to nearby FM radio stations, which relay the signal to subscribers over the same FM sideband that QuoTrek uses.

Users then choose from the options on the control unit's screen, pushing the button next to their choice. Points are scored for every correct choice, and, at the end of each show, participants plug their phone lines into their control units and transmit their results. Computers tally everyone's score, reporting back in four minutes how one has scored.

So far so good, but it's difficult to play Interactive's game and watch television at the same time. "Lockton was first," says Laurie Frick, a marketing manager with Hewlett-Packard Co., which will introduce a competing product by year's end. "But being early doesn't work unless your product is great." GTE Corp. is also testing a similar concept. Both systems will put information right on the television screen, making them easier to use. "Lockton's box is the pet rock of interactive TV," says Denise Caruso, editor of *Digital Media*, an industry newsletter. "It's a gadget, and gadgets come and go."

Whether Interactive stays depends heavily on its proposed secondary offering. According to its prospectus, Interactive does not have sufficient cash to satisfy its needs beyond this month. If public investors do rescue it from the oncoming train, the prospectus further states that even after the offering the company will need to raise additional money before it turns cash flow positive. There are no signs that the big outfits that pumped money in earlier will come up with more.

We don't think much of the system itself, but we'd rather become a customer than a shareholder.

Civil engineers Scott Taylor and John Biver were going nowhere with their little software company. Then they brought in an outsider to be their boss.

"Right here in little Dubuque"

By Damon Darlin

IN 1983 Scott Taylor and John Biver, two civil engineers in Dubuque, Iowa, wanted to buy a personal computer to simplify their tedious calculation and drafting tasks. Their firm's elderly partners refused to put up the \$7,500 it then cost to buy an IBM PC, printer and basic software. So the two bought their own. Only then did they discover there was no software available to handle their specific needs.

With only memories of a college course in programming as their guide, they wrote a few little programs of their own in their spare time. One of the first calculated earthwork volumes, or how much dirt had to be moved by a road crew, cutting a five-hour task to five minutes.

Proud of their accomplishment, and hoping to bring in consulting work, they took their software to a



Engineering Data Systems founders Scott Taylor and John Biver
They decided to quit their jobs during a long drive across Iowa.



WASHINGTON & WORLD BUSINESS

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convention of Iowa county engineers in Ames and showed it off to highway and site-planning engineers. Instead of consulting work, they got requests for the software itself.

A business in the making?

During the long drive back across Iowa, Taylor and Biver, then 28 and 29, respectively, convinced themselves it was. The next day, with no more assets than their \$7,500 PC and \$1,100 promised for a consulting job, they quit their jobs and turned their attention to Engineering Data Systems Corp. That was 1984.

Over the next six years Taylor and Biver had plenty of opportunities to decide they had made a mistake. Selling mostly by word of mouth, they brought in \$45,000 the first year; after four years the little company was still doing only \$750,000. They survived by doing consulting work for contractors and county engineers and keeping costs low. They ran the company out of Biver's basement. Both their wives had to work at outside jobs, Taylor's wife as a computer programmer, Biver's as a grocery store cashier.

The big break finally came in late 1989, when their accountant, who they had met playing church league basketball, introduced the pair to Rodney Blum. Blum, now 37, was a part-time consultant who had previously been a marketing manager at CyCare Systems, Inc., a medical claims data processing company.

"I saw right away these guys had a great product, but their problem was nobody knew about it," says Blum. "They were waiting for the phones to ring." He convinced Biver and Taylor to supplement their trade-publication ads and word of mouth with telemarketing their software. "It was the

quickest way to get the message to the customers. Our competitors had the dealers locked up," says Blum.

"We recognized right away that this guy could help us," says Biver. Within six months the founders offered to bring Blum in to run the company; they would take backseat jobs as vice presidents. Blum was worried at the prospect of bossing the

surveyors and civil engineering consultants. Blum says he expects sales to reach \$11 million this year, up from almost \$6 million in 1992. Individual programs, which run on workstation or high-powered PCs, sell for \$495 for a basic surveying calculation program, to \$2,495, for its bestselling RoadCalc.

In addition to telemarketers, Blum hired about 20 civil engineers and land surveyors to answer questions over a toll-free line. "I'm a civil engineer, want to talk to a civil engineer," says Blum.

By Blum's estimate the company is now in second place among 90 competitors in the estimated \$800 million niche market for land surveying and civil engineering software, closing in on industry leader Intergraph Corp. of Huntsville, Ala. The latter is a \$1.2 billion (1992 revenues) vendor of turnkey workstation systems for computer-aided design, manufacturing and engineering; last year it acquired a company with a product similar to Engineering Data's.

Does it worry this small town crew that they are up against such a giant? "We're capable, right here in little Dubuque, Iowa, of being the absolute market leader," responds Rod Blum. He thinks that being smaller and more nimble will help his little company continue to

grab market share.

Meanwhile, Taylor, now 36, is looking into developing software for computer-aided manufacturing, and Biver, 38, heads the engineering and architectural software operations. How does the pair feel about having an outsider as chief executive of their baby? Says Taylor: "I feel more in control today than I did five years ago."

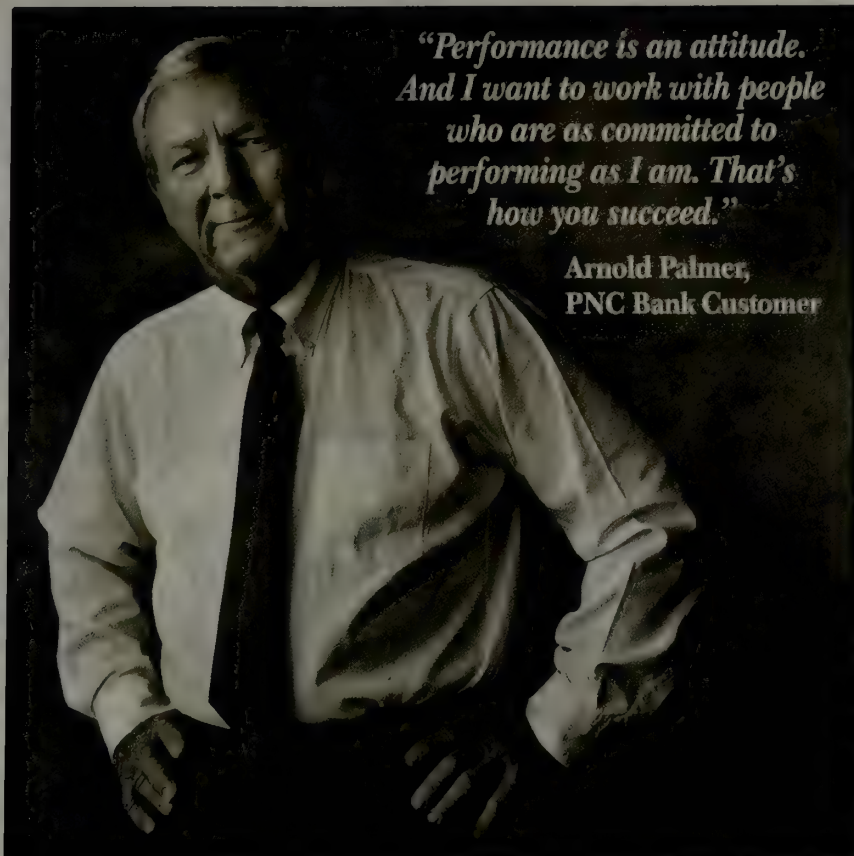


Engineering Data President Rod Blum

"These guys had a great product, but nobody knew about it."

founders, so he made ownership a condition of taking the job. He won't say how much of the company he owns, but it's enough to give him the swing vote in case of disagreement between the two main partners.

What a difference a marketing man makes. Since Blum took charge in 1990, Engineering Data has grown to 145 employees, mostly telemarketers cold-calling county engineers, land



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Bob Macauley is running drugs to the Russians, and proud of it. A spoonful of sugar in the tax code helps.

"I'm nothing but a beggar"

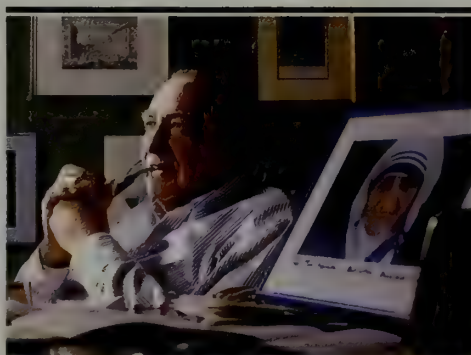
By James R. Norman

AS HE POURS COGNAC for his American guests, Russian physician Kudrat M. Abdulkadirov is expansive. Baxter Healthcare Corp. has just donated to his blood institute in St. Petersburg 28 cases of Factor VIII, a high-tech coagulant that lets hemophiliacs undergo surgery. It's a year's supply for the clinic, and worth \$1 million—far more than the 500-bed facility's entire annual budget.

Like the old Soviet government, the new Russian one lacks foreign exchange to buy such medicines. But unlike the socialist dictatorship, the new government is not ashamed to accept charity if it helps to save lives.

Abdulkadirov has his shipment thanks to AmeriCares, a nonprofit relief group run out of New Canaan, Conn. that has helped turn a trickle of U.S. medical donations into a steady flow. AmeriCares is a splendid example of what a free-enterprise approach can accomplish in the charity business. Fundraising costs and overhead for the 40-employee operation was just 1.4% of the \$140 million in supplies AmeriCares sent abroad last year. That made it one of the most efficient of 300 charities evaluated by the National Charities Information Bureau (*FORBES*, Oct. 26, 1992).

AmeriCares' founder and unpaid chairman is Robert Macauley, a kindergarten and Yale chum of George Bush's. After flying cargo planes in World War II, Macauley knocked about playing piano, including once in a Paris whorehouse. He settled down to a successful career in the paper business, going deep into debt to build a paper mill. In 1992 he sold his stake in the \$87 million (sales) Virginia Fibre Corp. to Greif Bros.



Robert Macauley, AmeriCares' founder
Delivering medicine efficiently.

Corp. in Ohio.

Now Macauley devotes his ample energies and business skills to bringing lifesaving pharmaceuticals to people who couldn't otherwise afford them. He persuades drug companies to give him surplus goods, then goes out and raises the money for shipping them to those in need. Grins Macauley, 69: "I'm nothing but a beggar."

This is big-time panhandling. AmeriCares' deliveries of the \$140 million of medicines, at retail, were up from \$103 million in 1991. This year's aim is \$200 million. Since its startup in 1982, the group has shipped \$680 million in medicines and supplies, and by the end of 1995 Macauley's target is \$1 billion.

In getting the drug companies to give him the stuff, Macauley has gotten a big boost from a provision in the 1986 tax act, which allows up to 200% deductions for donated inventory to help infants, the needy or the sick. If a pill costs, say, \$1 to produce and wholesales for \$3, the maker can deduct the cost plus up to half the markup, or \$2, if the pill goes to charity. With Washington muttering

about high drug profits, charity is not just a virtue—it's smart business.

Besides tax breaks, there are marketing benefits for the donors. David Williams, president of Connaught Laboratories Inc., which just gave the Russians \$13 million of polio vaccine through AmeriCares, explains: "Someday Russia will be a market. So while meeting a need, maybe we can plant seeds."

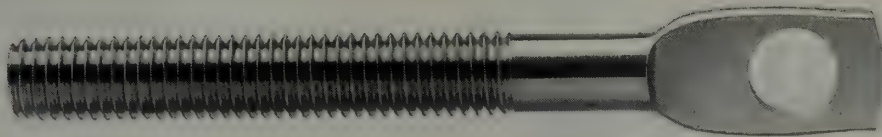
Drug donations also spare manufacturers the cost of destroying surplus medicines—often classed as hazardous waste. This can be ten times the manufacturing cost and risks future pollution liability.

Naturally, drug companies don't want surplus pills filtering into the black market for sale again in Miami—a real threat given the corruption in most Third World countries. Thus AmeriCares won't give drugs to governments. "The biggest thing donors need is trust in the distribution," says Peter Keating, AmeriCares executive vice president.

To control final distribution, AmeriCares uses the Roman Catholic Knights of Malta in Latin America. Leftist loudmouths, ever eager to disparage American motives, have suggested that AmeriCares is a CIA front. They have no evidence, but they rarely do. Stephen Johnson, AmeriCares president, responds: "Bob won't take orders from bureaucrats. They don't use *us*. We use *them*."

Not that bureaucrats don't sometimes create problems for AmeriCares. A U.S.-government-chartered cargo plane carrying 40 tons of Tylenol, Dristan, Maalox, Robitussin and assorted antibiotics to Dr. Abdulkadirov's clinic and a dozen other local hospitals in January was turned back from Russian airspace: An official didn't recognize the pilot's entry code. When it landed a day late, AmeriCares had to scramble for a ground crew and unload some of the medicines by hand in a below-zero squall. The medicines were then counted and distributed under the watchful eye of an AmeriCares staffer. In Russia, where rubles won't buy much, AmeriCares was able to buy an extra measure of devotion from the people who did the work by paying them with cigarettes, candy, soda—and a few American dollars. ■

"MOVING IN QUALITY CIRCLES"



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Think classy auto racing and you think Grand Prix. Think again.

The wrong formula

By Nina Munk

EUROPE'S FORMULA ONE circuit has always been the world's preeminent showcase for auto racing at its most dashing. Americans like driving at near-supersonic speeds around and around in circles. But the Europeans prefer piloting sleek, whippet-like cars through Old World streets and twisting tracks. It's more a test of automotive nimbleness and agility than raw power, and it's given Formula One unrivaled cachet around the world.

But cachet can get too expensive. Formula One costs have run amok. Budgets for the top Formula One teams now run between \$70 million and \$100 million a year—Brazilian driver Ayrton Senna raked in \$22 million last year, making him the third-highest-paid athlete in the world (*FORBES*, Nov. 23, 1992).

On top of those outlays, the teams garner as much as another \$60 million each in the form of engines, tires and fuel that sponsors supply for free. Spending for Formula One's 16 teams: around \$1 billion, not including promotion.

Listen to Flavio Briatore, managing director of the Benetton Formula One team and one of the most powerful men in auto racing: "Technology is all very fine, but the people who watch television don't care if Senna has active suspension or [Britain's Nigel] Mansell has fly-by-wire throttle response systems."

Briatore complains that the costs of such sophisticated technology drive many potential competitors from the field. With fewer teams able to raise the money needed, competition is thinning and winners are often crowned long before the season is over. Last year Mansell was declared

world champion after just 11 races, making the final 5 races of the season meaningless.

Europeans get awfully snooty when they talk about America's around-and-around-style car contests. American races—notably the IndyCar circuit, which includes the Indianapolis 500—still lag Formula One in both worldwide television coverage and the high-tech image that many sponsors seek. But that's changing.

After almost two years of negotia-

tions, Carl Haas, co-owner of the Newman Haas Racing IndyCar team along with actor Paul Newman, prevailed on Nigel Mansell to jump ship. From now on, Mansell will be driving around and around.

Honda Motor Co., a mainstay of Formula One, is pulling out, too, and is looking to switch to the IndyCar circuit. Because of restrictions that limit high-ticket, high-tech gimmickry, IndyCar team budgets run just \$3 million to \$10 million. Honda is estimated to have spent \$50 million a year for the past ten years developing engines for Formula One.

Two years ago IndyCar introduced a race in Australia—its first outside North America. Plans are in the works for Asia and Europe. IndyCar races will be televised in 90 countries this year. Estimated revenues for the series are \$400 million, up from \$100 million in 1985.

"Formula One is in a bind because they've ignored market forces," says William Stokkan, chairman of Championship Auto Racing Teams, which runs IndyCar. "I don't apologize for



ne fact that part of our rules are meant to maintain the entertainment value of the sport."

Sponsors agree. "The IndyCar people understand that they are sponsor-dependent," says Ellen Merlo, a vice president at Philip Morris. "Their support goes far beyond Formula One's."

The mandarins of Formula One pretend they aren't concerned. "If people prefer pro wrestling over heavyweight boxing, then let them watch pro wrestling," sniffs Bernard Ecclestone, who pretty much runs Formula One as head of the Formula One Constructors Association.

Despite Ecclestone's disdain, Formula One is moving to imitate its fast-growing American cousin. In mid-February the Fédération Internationale du Sport Automobile, the auto racing governing body, throttled back technological overdrive. New rules call for the introduction of, yes, American-style oval tracks for some races. Concedes FISA spokesman Martin Whitaker: "There is no point having a championship if there's no competition."

Grand Prix winner Nigel Mansell took the title after only 11 races, making the other 5 races a ho-hum affair.

Move over, oenophiles, here come the olivophiles.

Oil snobs

TO MOST PEOPLE, extra virgin sounds like the hymenal opposite of a little pregnant—you either are or you aren't. But we're talking olive oil, a booming market where both the terminology and the prices are starting to make buying wine sound simple.

Take La Giara, the latest fancy Italian import, which comes from southern Italy's Calabria region. It's not only "extra vergine," it's also "cold pressed" and clearly stamped on the label with the month and year of its bottling, like a wine vintage but more specific. Price? Twenty-four dollars a liter—around three times what your ordinary liter bottle goes for and double the price of many good cabernet sauvignons.

Is all this a joke? No, just smart marketing. Why sell a product for \$7 a liter when you can gimmick it up a bit and get \$24?

First, the production date. Authorities swear it's critical because olive oil loses its flavor after 18 months, even though it doesn't look much different. Few people can tell the difference. Only the date tells them.

"Extra vergine" means the olives haven't been chemically processed to remove acidity, they've simply been pressed and heated. "First-pressed" means the olives haven't been squished twice or more, and the "cold-press" method operates at lower pressure with no heat, using more olives, to make the oil more flavorful.

Want to test these claims? If you happen to be in Manhattan or Washington, drop by Dean & DeLuca or other swanky shops for tastings, which are the primary means of mar-



\$24 olive oil
Are they joking?

keting these products. Chances are you won't be able to taste the differences. "It's not like wine," says Stephen Grace, packaged-goods buyer at Dean & DeLuca. "It's very subtle."

What isn't so subtle is the appeal to food snobbery. It works very well for Samaritana Rattazzi, a Roman lobbyist and niece of Giovanni Agnelli, who bought La Giara in 1986 and built its new pressing factory 2½ years ago. Rattazzi now sells about 2 million bottles of the loftily priced La Giara world-

wide and has high hopes over here. "People here are finally getting concerned about what they throw down their throats," she crows.

Though medical evidence is unclear, olive oil has been getting lavish press as a virtuous alternative to other oils and animal fats—it's loaded with monounsaturated fats, which promote the so-called good cholesterol. And it doesn't hurt that this prime ingredient of la dolce vita is indispensable to one of the world's most popular cuisines. As a result, olive oil dollar volume in the U.S. grew 40% in 1990, 11% in 1991 and 43% in 1992, to \$247 million.

Most of that comes from the less expensive stuff—around \$7 a liter. Though the base is much smaller, the action is in high-priced oils like La Giara. La Rattazzi thinks Americans could buy 500,000 liter bottles of the vintage, extra virgin variety within a few years. Dean & DeLuca carries La Giara, and around 20 other brands, some at \$60 a liter. Despite the prices, the store's olive oil business grew between 15% and 20% last year, making it one of its hot categories.—J.L.

If you want to get into movie production, start out in chicken farming. Then learn Fortran.

Artistic programming

By Joel Millman

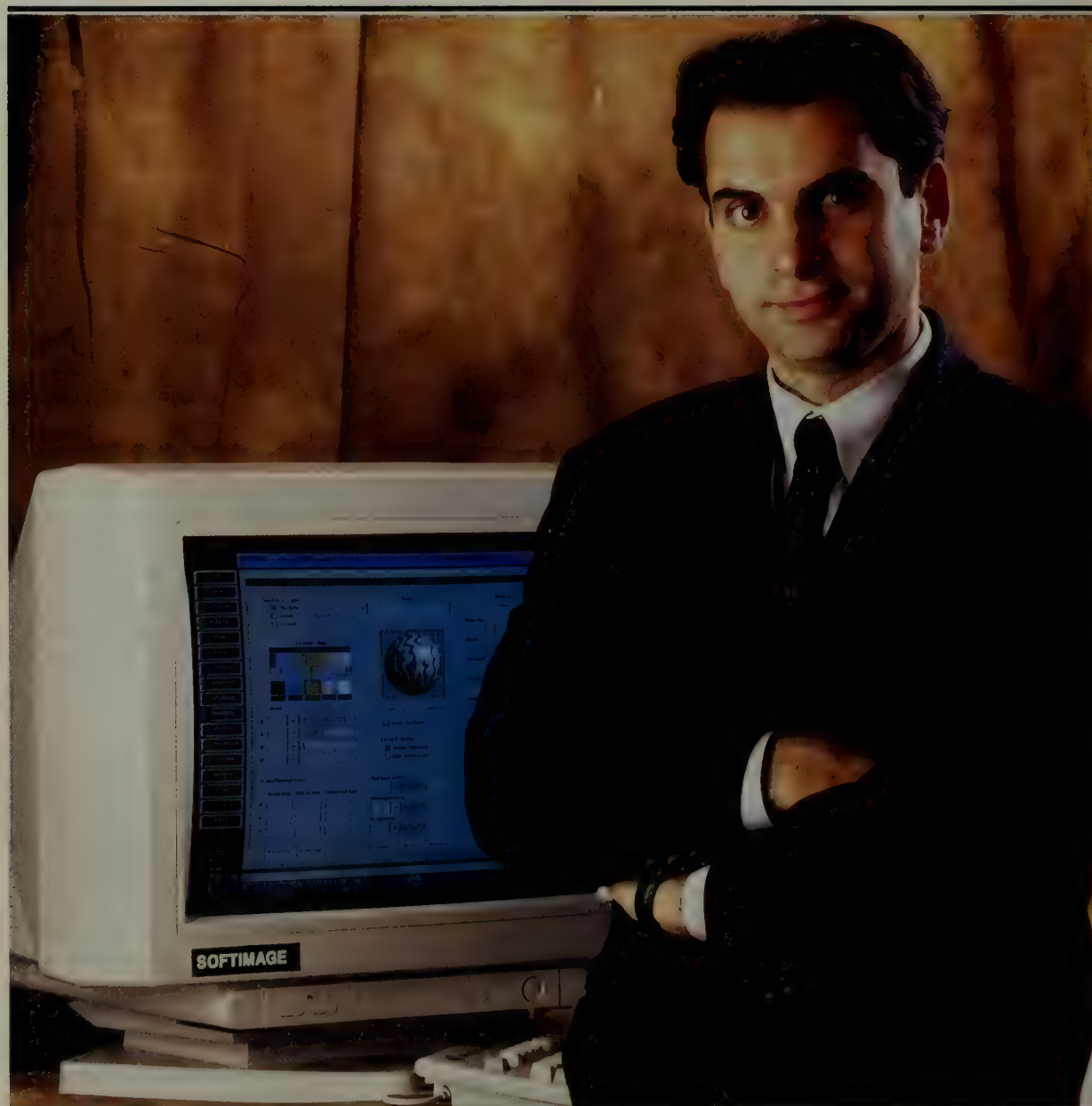
HOW DID Daniel Langlois get into the jet set, flitting between offices in Hollywood, Milan, Montreal and Hong Kong? By growing up on a chicken farm in St.-Jérôme, Que., 30 miles outside Montreal.

Farm life north of the St. Lawrence River means long winters and short days, which left the young Langlois with plenty of free time to indulge his

love of drawing and design. That led, after a college degree, to a part-time job with Canada's National Film Board, working on animation projects. By 1979 the agency had acquired a Digital Equipment computer to automate some aspects of cartoon production, only to realize no one there knew how to operate the thing. Langlois taught himself Fortran pro-

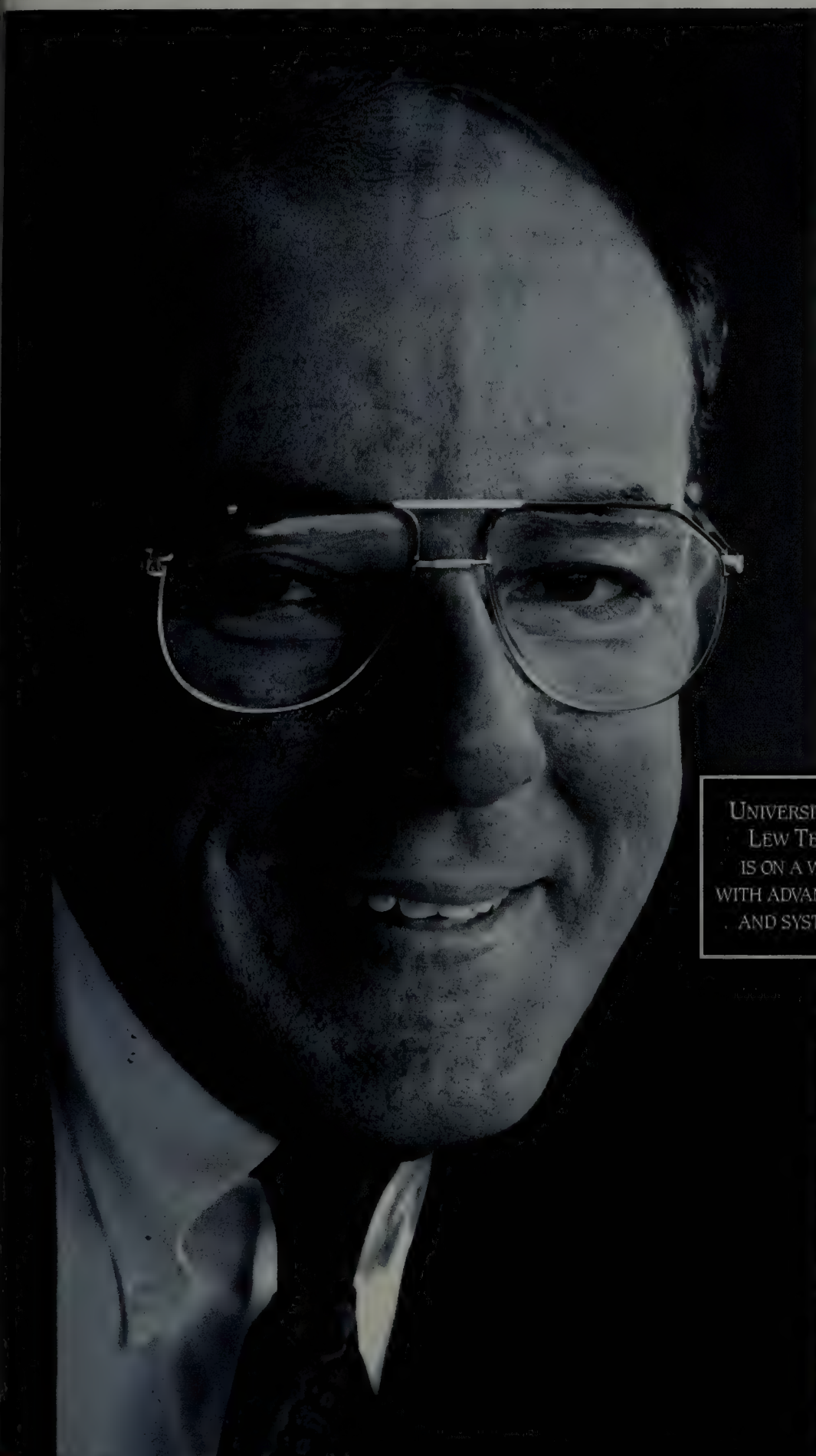
gramming and talked himself into a full-time job.

By 1985 the resourceful Langlois was co-directing films on his own, including *Tony de Peltrie*, a six-minute cartoon that is arguably the first fully computer-generated film with a story line. Langlois turned that success and \$50,000 of his own money into a startup called SoftImage. Some



Daniel Langlois, Softimage founder and chief executive
"There is only one way I'm going to get the product I want— if I design it myself."

Software Coach.



One of the finest academic institutions in the country – the University of Miami – also has one of the best football teams.

But you should really see their computer team.

Led by veteran CIO Lew Temares, the University of Miami Information Resources Department has been racking up some pretty impressive statistics of its own over the past 10 years.



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UNIVERSITY OF MIAMI CIO
LEW TEMARES, PH.D.,
IS ON A WINNING STREAK
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AND SYSTEMS SOFTWARE.

"It gives us one totally integrated environment across the entire University. And that

keeps all our customers happy." And the game plan for this year?

"Same as last year. Work hard and play to win."

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venture capital, together with hefty subsidies from the national and provincial governments, enabled him to get the firm off the ground.

Langlois' Montreal-based company produces animation and video editing software. The software does for computer animators what spreadsheets do for computer accountants: It vastly speeds up what would otherwise be a laborious process of creating custom-made code. Thus, if you have a digitized image of a robot, and want to rotate it, walk it across the screen or transmute it into a humanoid, SoftImage commands are a convenient shorthand.

This digital handiwork is extremely valuable these days, when computerized special effects are very much in demand in Hollywood. "Our software did Meryl Streep's neck," boasts Langlois, 35, referring to the 1992 film *Death Becomes Her*, whose special effects were aided by SoftImage technology. This year SoftImage will help make a cast of computer-generated dinosaurs frolic in the new Spielberg epic *Jurassic Park*.

SoftImage also gets plenty of business from less glamorous productions: TV commercials, architectural visualizations and interactive videogames. Revenues doubled last year, to \$14.6 million, while earnings almost tripled, to \$2.5 million.



A model's movements digitized; skeletal forms fleshed out

A morphing program adds texture.

SoftImage is taking full advantage of the effervescent market for software stocks; it went public last July and is returning with a richly priced \$20 million secondary offering planned for this month. Langlois' shares are worth \$23 million, enabling him to spend his free time lavishly renovating a 19th-century townhouse in Montreal.

At the time SoftImage was getting under way, plenty of software firms were selling animation programs, but they were programs only an engineer could love. No one was selling to creative artists.

Langlois remembers trying to use the nerd-friendly software. Whenever he wanted, say, to make a clay figure's arms and legs move in tandem, he would have to work with an engineer to make the figure walk frame by frame on the screen. "There is only one way I'm going to get the product I want," Langlois recalls thinking: "If I design it myself."

It took six engineers working 18 months to make SoftImage's first product, but when it was introduced in 1988 at prices starting at \$8,000, it was an immediate hit. The package integrates modeling, animation and rendering processes. The latest version, of which George Lucas' Industrial Light & Magic bought 35 copies for *Jurassic Park*, has two selling propositions: "constraints" and "inverse kinematics."

Constraints, in this context, means the ability to anchor a figure to a floor, the back of another creature or any other object, and not have it fly apart when another object careens into it. When animators apply wind, gravity or any other force to the figure, it behaves as a living body does.

Inverse kinematics means being able to put in the mechanics of a skeletal structure when building a figure. Thus, when plotting that figure's movement across a series of frames, an animator need only tell the computer the route, and the figure behaves correctly—elbows, legs and knee joints working in tandem.

"In other systems, if you want to make a hand move, you have to work with everything else—arm, elbow, shoulder. It's a real pain in the neck," says Thomas Williams of Industrial Light & Magic.

SoftImage, whose software is usually run on Silicon Graphics machines, sells turnkey installations combining hardware and software for about \$100,000. Expensive, but the package allows artists and animators to produce animation on their own, with scant support from engineers. "If the only people taking photos were the ones who made cameras," says Langlois, "the whole thing might be less interesting."

Langlois is an unusual combination: a programmer who is also an artist. That's a combination we'll see a lot more of.

MONDAY	NOV 9, 1992	THUR
10:00~ Review Meetings 12:00~ Lunch with J. Ser		210 210 210 210
TUESDAY	NOV 10, 1992	FRI
6:00~ Danny's Birthday Interview with a 2:00~ Advertising meet.		1800 7 7 7
WEDNESDAY	NOV 11, 1992	SATI
1:00~ Meeting with Joh 7:00~ Pick up Julie at		SUN SUN SUN SUN
OCT 20~	NOV 2~	NOV 9~

A hand-drawn sketch of a hotel room layout. At the top, there are five small circles representing a window or ventilation system. Below them are three buttons labeled "QUIT", "NEW", and "SMALL". On the right side, there are three buttons labeled "EDIT", "PREV", and "NEXT", each with a corresponding icon (a pencil, an upward arrow, and a downward arrow). The room itself is divided into several sections. On the left, there is a desk area with a chair and a lamp. In the center, there is a bed area with a headboard and a footboard. On the right, there is a bathroom area with a toilet and a sink. Various labels and notes are scattered throughout the sketch, including "HOTEL" with an arrow pointing to the desk, "Nov. 12", "2:00 AM", "6th Fl.", "BRING 9600", "BROADWAY", and "4th fl.".

QUIT NEW SMALL

HOTEL

Nov. 12

2:00 AM

6th Fl.

BRING 9600

BROADWAY

4th fl.

EDIT

PREV

NEXT

• MORE

[illegible]

Wf. Burto
Haddock D
2334 Ario
Plainfiel

Dear Burt

You're no
flight ge
touch ser

Burt, thi

LAYOUT

HOME PREV NEXT

1 / 1 SECRET

UP

DOWN

WIZ

NOTEBOOK VIEW MODE FILE IT INDEX

TITLE Mr. Burton T. Keating PAGE 1/1 SECRET

Mr. Burton T. Keating
Hadlock & Sklar, Inc.
2334 Arlington Blvd.
Plainfield, NJ 23458

Dear Burtt:

You're not going to believe it, but I'm
flight back from London into my new -
touch screen electronic organizer from S

Burtt, this letter shows you that the Wiz

The image shows a Sharp Wizard 256KB handheld calculator. The screen displays the following information:

- Date: 11/13/79
- Balance: \$43.88
- Paid With: Visa
- Receipt: Yes
- Purpose: Meeting
- With: Bob Jones
- Reimbursed: No

Below the screen is a numeric keypad and a function keypad. A finger is pointing at the 'Project X' entry on the screen.

The screenshot shows a computer screen with a 'PRINT' dialog box in the foreground and a 'RECEIPT' form in the background.

PRINT Dialog Box:

- Buttons: OK, PRINT, CANCEL, QUIT
- Print Range: 1-13/19
- Print: All

RECEIPT Form:

Date	11/13/19
Amount	\$43.00
Paid With	Visa
Receipt	Yes
Purpose	Meeting
Vip	Bob Jones
Restaurant	No

At the bottom of the screen, a numeric keypad is visible with buttons for digits 0-9, a decimal point, and a 'C' button.

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At the bottom of the screen, a numeric keypad is visible with buttons for digits 0-9, a decimal point, and a 'C' button.

800-321-8877

[illegible]

LCD

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Competing against Mr. Big

COMMENTARY BY RICHARD A. SHAFFER



Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter*.

BILL GATES wants it all, his enemies say, every part of the software business. Maybe so, maybe not, but he's not going to get it.

Pockets of opportunity will remain in desktop software. It is quite possible for other software publishers to survive. They can do well even though Microsoft dominates operating systems with its DOS and Windows, and also owns large stakes in such basic application categories as word processing, spreadsheets and information management.

The little vendors survive and even flourish. More than a few Windows-compatible offerings from smaller software firms compete successfully with Microsoft offerings. Among them are PageMaker, the desktop publishing software from Aldus Corp., and Norton Desktop, a utilities and file management package from Symantec.

Here are some other success stories from the non-Microsoft quarter: Intuit, a leader in personal finance software; Quark, a fast-growing vendor of magazine publishing software; America Online, which distributes personal computer data by modem. And here is one nonsuccess story from the Microsoft campus: the Solution series. This software assortment, which includes Works for Windows, Microsoft Pub-

lisher and Microsoft Money, hasn't fared particularly well in the small-business and home markets.

So, Microsoft is a great company, but it does not walk on water. No business does.

There are many areas in which Microsoft isn't yet a significant player: consumer software; client/server or network software; and such specialized niches as drawing, forms, tax preparation, computer-aided design and personal information manager applications.

One problem for the little software outfits is that Microsoft's new version of its Windows operating system has helped ignite a software price war. By enforcing a consistent look to the so-called interface that the software user sees, Windows has made it more difficult for program publishers to differentiate their products.

But even in this environment there are winners. Publishers of technical software, for example, such as Autodesk and Mathsoft, are more likely to benefit from the continued growth of Windows than to be hurt by it. Autodesk software automates the work of draftsmen and designers. Recently the company shipped upgraded versions of all its design and drafting programs, which met with good reviews.

Mathsoft programs make it easier to use desktop computers to solve complex equations. With its software, the company also markets electronic versions of such popular technical manuals as *The Handbook of Chemistry and Physics*.

How about entertainment programming? Electronic Arts, a supplier of videogame software, is growing even faster than Microsoft, with earnings per share tripling over the last three years. Microsoft has little to offer that competes.

Nor does Microsoft offer electronic information services, such as those

provided by America Online, Prodigy (the Sears-IBM joint venture) and CompuServe (a subsidiary of H&R Block). America Online is much smaller than the other two, but its product is much easier to use.

In educational software, companies doing well include Broderbund and Learning Co. Broderbund publishes a well-reviewed Carmen San Diego series of history and geography games, the Print Shop publishing program, and the Kid Pix painting and drawing program for small children. Learning Co.'s best-known products are the Reader Rabbit and Math Rabbit series of programs.

In tax-preparation programs, there is Chipsoft, a publisher of software that helps both individuals and professionals fill out and file those seemingly endless forms from the Internal Revenue Service. Every year a very high proportion of Chipsoft's customers, about 40%, buy the latest version of its software.

In client/server computing, where groups of connected small computers do jobs that once were done only by a single large computer, there is little or no Microsoft competition for PeopleSoft, which publishes programs that manage corporate personnel chores.

Microsoft increasingly dominates the desktop world; but it isn't the leading player, either in operating systems or applications, in four other growing or promising digital fields: networked computing, consumer computing, mobile computing and information services.

Each of these areas has the potential to change the software market in the next few years, just as Windows has been changing it lately. Nowhere is it written that Microsoft will inevitably take over these areas. Several of the companies mentioned here have gone public in the past two years, and another, Quark, is likely to. ■



Los Angeles utility consolidates operations in intelligent center.



The Los Angeles Department of Water and Power (LADWP) was faced with the classic problems inherent in operating multiple facilities in the same city.

Adding to the inevitable inefficiencies were two special concerns: the computer center in the utility's main building downtown had outgrown its space; and there was no backup data center in the event of an earthquake.

While maintaining its headquarters downtown, LADWP decided to consolidate other functions in a new four-story, 315,000-square-foot operations center, located on a 35-acre site within the city limits.

The James H. Anthony Office Building, which houses 1,450 people, now contains the utility's computer operations, water-quality laboratory, commercial and customer service divisions, and finance and accounting offices.

A sophisticated central control room enables operators to monitor all operational aspects of the facility.

This intelligent facility is supported by a large emergency power system to maintain crucial functions of the LADWP, as well as many redundant systems for increased reliability.

The facility incorporates the latest technology for water conservation and energy efficiency.

The Anthony Office Building was designed and engineered by The Austin Company's Western District, headquartered at Santa Ana, California.

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Could diamonds soon be more common in computers, phones and industrial machinery than they are on women's fingers?

Diamonds with everything

By Peter Fuhrman

AS A GENERAL RULE, it is wise to beware stories hyping new scientific "breakthroughs." Just recall special plastics, high-strength ceramics, superconductivity, cold fusion, artificial intelligence.

But here's a story that, at least for the respected company it keeps, merits looking beyond the hype. It involves synthetic diamond films made by a process called chemical vapor deposition.

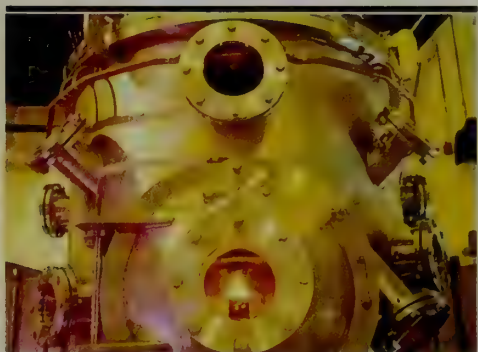
Racing to be first to market are such firms as Mitsubishi, Toshiba and Monsanto. GE formed a joint venture as long as four years ago with Japan's Asahi Industrial Diamond—one of its biggest customers for diamond grit

abrasives—to develop and market diamond film products.

South Africa's De Beers, which runs the gem-quality diamond cartel, the Central Selling Organization, has created its own highly secretive diamond-film research operation tucked away on the Isle of Man, in the Irish Sea off northern England (*see box*).

At last count, 200 companies and national research laboratories, including Sandia and Los Alamos, are spending an estimated \$100 million a year on research into producing diamond films. How come so many? Because the basic technology is not covered by patents. The original research was done by Russians and was later picked up by Japanese scientists.

Diamonds' properties are the attraction. Diamond is the hardest material found in nature and one of the best conductors of heat. If the price of diamond film can be cut to less than that for industrial stones, then these films could be used on almost everything from metal-cutting tools to bearings, to lasers and optical lenses. They could even become the base material for new microelectronics.



Photographs by Frank Espinoza/Norton Co.

ABOVE:
Norton's oven
for growing
diamond films

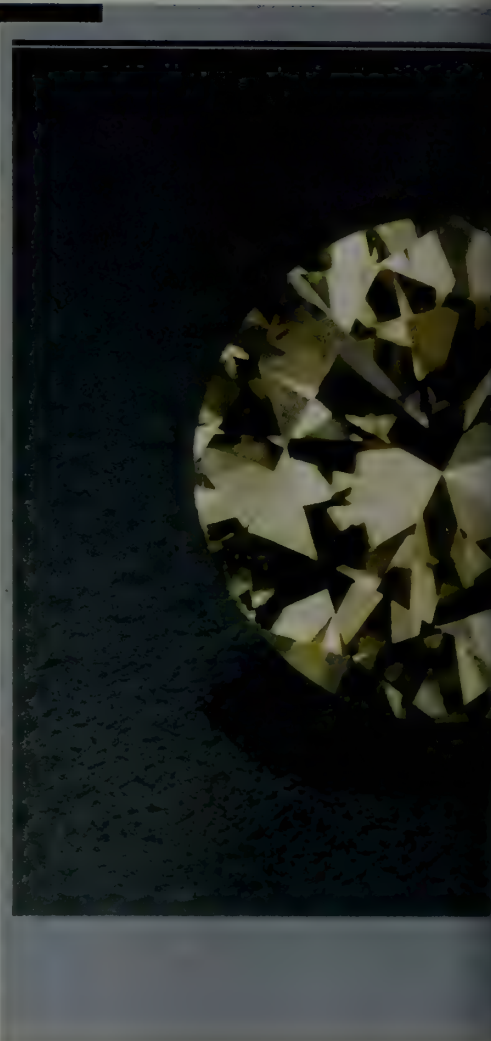
RIGHT:
A scratch-resistant
2-inch
diamond dome for
a cruise missile
**Military applica-
tions are moving
fastest.**

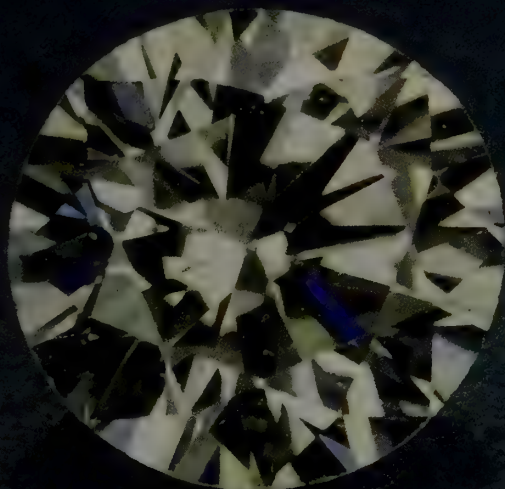


Today industrial-grade stones cost around \$10 a carat, and the best uncut gemstones \$400 a carat. So far, diamond film costs are down from around \$1,000 a carat a year ago to around \$250. Richard Post, president of Astex, a Massachusetts firm that makes microwave ovens for growing diamonds, claims his new, giant, 75-kilowatt machine can grow diamond film for well under \$50 a carat. If true, that's impressive but still leaves a long way to go before these films reach mass production.

In the process to produce diamond film, methane gas mixed with hydrogen is exposed to microwave radiation or high heat inside a vacuum chamber. This creates diamond molecules that then bond to heated surfaces on the object to be coated.

Researchers are already hitting limits in the rate at which diamond films can be grown. One refinement may be to replace microwaves with high-energy lasers. Lasers are very costly, but using them may avoid the need to polish the film. For many applica-





2,000 diamond gemstone alongside a \$20 zircon
ding a thin coat of diamond would make the fake hard to detect.

Pick the real one

IT WAS FEAR, as much as anything, that originally drove De Beers to investigate diamond-film technology. Back in 1988 De Beers scientists concluded that diamond films could someday be deposited on pre-cut poor-quality stones, or even on cheap zircon, to such good effect that the fake would pass off as a high-quality gemstone. So in deep secret De Beers set up a research facility working on diamond-film technology. To escape attention, this laboratory is situated on Britain's remote Isle of Man, and operates there as Pacini Ltd.

The problem for De Beers is that diamond film grows best and at its most pure on another diamond, even the worst-quality industrial diamond. And

once in place, the camouflage layer is good enough to fool the detection equipment used by most jewelers, let alone any ordinary eye. Diamond film can even be deposited in such a way as to bring a flawed diamond up to top-quality standards, "repairing" natural defects.

De Beers' big worry is fraud, that machine-made stones might be passed off as natural stones. The company hopes to develop cheap detection equipment.

It seems far-fetched that diamond films pose much of a threat to De Beers' lucrative cartel. It spends \$160 million a year in advertising to convince women that there is something special about the natural gemstones that zircons, or anything else made in a lab, just can't match. —P.F. ■

tions, vapor-deposited films have to be polished; because of the diamond's hardness, that can cost more than growing the stuff.

First out of the lab and into factory floor pilot trials are diamond-film-coated metal-cutting tools. Though they cost \$70, or 10 times more than similar tungsten carbide tools, they are claimed to last 30 times longer. Big problem: So far they won't cut iron or steel without breaking down. And so far only a small California firm called Crystallume has worked out how to put a diamond film onto tungsten carbide, the dominant material being used for metal-cutting tools, which is now an \$8-billion-a-year world market.

The biggest spender so far on diamond films is the Pentagon. The Strategic Defense Initiative Office has spent \$45 million for research since 1986 on using diamond films in, among other things, X-ray laser weapons. General Dynamics is experimenting with diamond-film avionics aboard one of its F-16s. Also being

tested are diamond-coated windows made by Norton Diamond Film, a U.S. subsidiary of French glassmaker Saint-Gobain, for use in infrared navigational devices fitted to smart bombs and cruise missiles. The coating resists the scratches caused by airborne sand that threw off the aim of some of these weapons during the Gulf war.

The big money in diamond films, if it comes, would be in semiconductors. The attraction is diamond's ability to throw off at least ten times as much heat as materials now used, such as silicon. This is important, because as more components are packed ever tighter on chips, the heat they produce can rise beyond what the base material can stand.

Once again, cost remains a problem. A 4-inch-diameter wafer made of diamond film still takes a day to make and costs \$1,000. One made from silicon is made in seconds and costs \$10. Another problem: No one has yet managed outside the laboratory to grow the diamond film as a single crystal, essential for its use in chips.

Despite all these outstanding problems, market forecasts for diamond films reach the sky. "We're talking about a new industry that could achieve sales of between \$1 billion and \$10 billion within seven years," says Thomas Collyer, general manager of Norton Diamond Film, obviously an enthusiast.

Such talk is leading to a promotional boom for diamond film. And already the first diamond-film startup has gone public. Houston-based SI Diamond Technology Inc. has no commercial products, and losses running at over \$100,000 a month, but it raised \$5 million in February in a deal that valued the firm at \$20 million. Others are bound to follow.

The risk for investors is that diamond films may turn out to be nothing more than another exotic material with limited uses. Our best guess? It will take longer than enthusiasts expect, but there will be diamonds with many things in our future. Picking the corporate winners, however, is a crapshoot. ■

Well-paced growth

COMMENTARY BY MICHAEL GIANTURCO



Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm that specializes in science and technology stocks.

HERE is a technique for picking technology growth stocks that has always intrigued me: Isolate a group of stocks for which the rate of sales growth is matched, point for point, with the rate of earnings growth. A set of such stocks is presented in the table. Let's see what this 1-to-1 ratio means in the real world, and then see if we can use it to identify growth stock candidates.

Look first at the extreme cases of disproportionate growth—like great sales growth coupled with puny earnings growth. How does this happen? Consider a company like a discount computer retailer. You would expect to see rocketing sales growth—but not much payoff at the bottom line. Here is a high-volume, low-margin business. Sales growth may be fast and furious, but earnings cannot keep pace, and the price of the stock will naturally tend to lag. Sales growth may exceed earnings growth by 2-to-1. Not a good ratio in this scan.

At the other extreme, let's consider the ratio produced by a company in serious trouble. Sales are flat but, thanks to draconian cutbacks and plant closings, earnings are inching higher. Maybe sales growth is only half as high as earnings growth, producing a ratio of 1-to-2. This is not a positive signal, and the stock will

probably suffer until the company turns itself around in sales growth as well as earnings.

For stock pickers, the most attractive ratio is 1-to-1 because it excludes stocks with problems like those just noted. It is no guarantee of a good investment, but it is a good place to start. For such a company, each percentage point of sales growth delivers a percentage point of earnings growth. If the sales growth is excellent, earnings will track it closely—and so too will the stock price. The table presents a set of stocks, ranked in order of sales growth, that show growth ratios pretty close to unity (they range from 0.75 to 1.25).

The temptation is simply to pick the companies with the steepest rates of revenue growth (such as Cisco Systems or Parametric Technology) and buy their stocks. Both companies have been recommended in this column in years past. Unfortunately, their good growth is already reflected in the prices of these stocks. American Power Conversion, like Cisco, has benefited from the long-established networking boom, and really is not a discovery.

For the purposes of this exercise in hunting growth stocks, we can also eliminate the slowest-growing company, St. Jude, which is the dominant

manufacturer of mechanical heart valves. It has already captured a towering share of its market.

I recommended Computer Network Technology in this column some months ago and I reiterate the recommendation. It is a buy at 6. The deep-set investor prejudice against (and misreading of) the mainframe business has discounted this stock along with its group, despite its exceptional growth and profitability.

What's left? Microsoft and Lam Research. Microsoft is a buy for us below 84. The stock has been run down with the software group, and by uneasiness among investors about its evident near-monopoly position.

Lam Research, a Fremont, Calif. semiconductor equipment manufacturer, is growing with its group. According to VLSI Research of San Jose, semiconductor equipment will see sales growth in 1993 of 18%, versus just 2% in 1992. Lam Research has already demonstrated excellent growth in a flat market environment, and should do even better in this upbeat year. The net margin is not eye-catching at 7% in the quarter ended Dec. 31, but we're looking for a pop in precisely this number. Sales for the quarter were \$61 million. Lam has a significant technology advantage in the field of etching, and is the biggest etch equipment supplier to Intel, Motorola and Advanced Micro Devices. All three companies plan to increase capital spending significantly in 1993, and the export market to Japanese semiconductor makers also may be expected to improve. Lam's stock has run up strongly in the past few months but is nevertheless a buy on pullbacks from 29.

Even keel

Company	Sales growth ¹	Earnings growth ¹	Aftertax margin ²	Price/earnings ³
Parametric Technology	97%	107%	25.4%	53.8
Cisco Systems	85	107	26.7	46.4
American Power Conversion	74	83	20.5	39.3
Computer Network Tech	72	63	17.8	28.9
Lam Research	43	39	6.7	32.1
Microsoft	38	30	25.2	30.3
St. Jude Medical	21	20	41.2	16.2

¹The most recently reported quarter versus a year-ago quarter. ²Most recent quarter.

³Earnings over the last 12 months.

For these companies, the rate of sales growth is closely matched by the rate of earnings growth. It follows that great sales will deliver great earnings—but is the price right?

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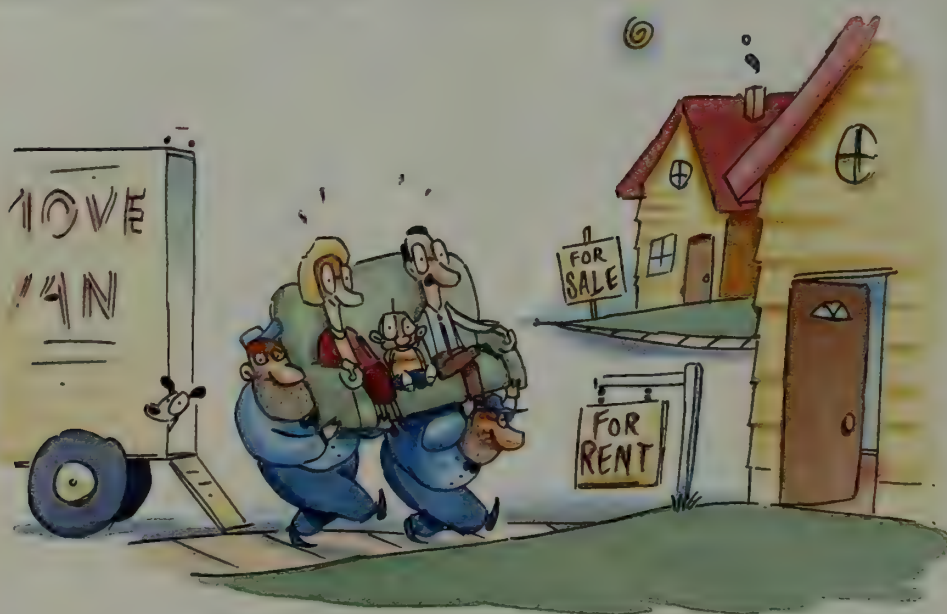
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Moving? Don't be so quick to buy another house.
Renting your next home could be a much smarter move.

Why buy the cow?

By William G. Flanagan and Brigid McMenamin



Patrick McDonnell

Consumers are reacting rationally. About 40% of people being relocated currently choose to rent, says relocation specialist Peter Dowling of the Chilmark Group, Inc. in Norwalk, Conn. They are afraid to buy in a declining market, while facing another likely move a few years away.

If all this isn't enough to get you thinking rentals, Jonathan Kempner, president of the National Multiple Housing Council, cites another possible clinker: a tighter cap on mortgage interest deductions. That tax proposal is now dormant but far from dead. It might limit the deduction to mortgages of \$500,000 or less. Thus one of the advantages of luxury home ownership would vanish.

But selling your home, and then renting, can have its costs. Under current law, if you do not buy another home of at least equal value within two years of selling your old one, you must pay capital gains taxes. (Of course, if you are 55 or over, you are entitled to a one-time capital gain exclusion of \$125,000.)

But that presumes you have a capital gain in the first place. Many owners who have purchased homes in recent years are chagrined to find they have no such gain to postpone. Or that the gain is too small to matter much.

Okay, but let's say you do have a substantial capital gain on your house and that you are moving from an area where values are declining—say a suburban New England area like Weston, Mass.—to suburban Los Angeles, and another area where values for big houses are dropping.

What do you do? Sell the Weston house right away, rent in Los Angeles and then keep a close eye on the local market. You have all of 24 months to look for bargains and for feeling for market bottom.

What if you're not being relocated but are simply sick of paying for

FOR DECADES it was accepted wisdom that the best investment you could make was the roof over your head. Accepting that bit of wisdom has cost many recent homeowners a bundle.

If you are relocating, or if you are an empty-nester thinking about unloading the big old homestead for smaller digs, don't ignore the option of renting. There are two main reasons:

■ Home prices aren't even keeping up with inflation. In 1992 house prices nationally rose under 2% against a 3.1% inflation rate, according to the Federal Home Loan Mortgage Corp.

On the coasts, prices actually fell, according to estimates by the National Association of Realtors. The median home on the West Coast dipped from \$147,200 to \$143,600. In the Northeast it fell from \$141,900 to \$140,000. In some markets more expensive housing was hit even harder.

What about long term? "Real housing prices will fall by a total of 47% by the year 2007," predicted N. Gregory Mankiw and David N. Weil in a 1989 study for the National Bureau of Economic Research. The controversial study, *The Baby Boom*,

the Baby Bust, and *the Housing Market*, was met with derision when first published; as housing has sagged, critics have quieted down.

■ As home prices are slipping, so are rents. One reason: Would-be sellers of single-family homes are becoming landlords in the probably vain hope that prices will soon rebound. In many cases, they are simply subsidizing renters while their equity shrinks.

These frustrated sellers are adding more rental stock to a glutted market. According to the Census Bureau, the vacancy rates among multifamily rental units averaged 9% last year. Result: Rents for modern apartments inched up just 1.9%, according to the National Real Estate Index.

The vacancy rate is even higher among some luxury rentals, which are going begging in some areas. In Manhattan, for example, more than 12% of luxury apartments stand empty. Even in San Francisco vacancies have risen to over 4%. At Fox Plaza, next to the Civic Center, you can rent a two-bedroom apartment with a view of the bay for just \$1,800 a month. And you get one month free.

ome that is much bigger than your needs and declining in value?

That's the situation in which Phillip Davis Jr., 48, and his wife, Charlotte, 44, found themselves. Their large colonial home in Gaithersburg, Md. was costing them \$2,500 a month for taxes, interest, mortgage and maintenance. Not to mention having to clear the snow from a long uphill driveway.

They put it on the block last year, and quickly got an offer of \$285,000, which they grabbed. The house had cost them \$122,000 in 1979. The Davises wound up renting a five-room penthouse apartment with a garage in Gaithersburg for only \$1,400 a month—\$1,100 less than what the house was costing them. After paying off the mortgages, the Davises were left with \$115,000. Invested in a good tax-free bond mutual fund, that would yield them 6% a year. Thus their net rent would come to only \$825 per month.

After one year the Davises are so happy with apartment living they've decided to put off finding a new home, perhaps indefinitely, even if they have to pay the capital gains tax.

Of course, the decision whether to buy or to rent isn't always this easy.

"Housing values across the U.S. have acted more like a fluctuating stock market than the 'sure' investment they once were," says Tom Peiffer, an executive vice president with Runzheimer International, relocation experts. Take the value of the tax shelter a house and mortgage can provide. With maximum marginal income tax rates at 31%, that shelter wasn't worth a great deal; if Clinton succeeds in jamming marginal rates closer to 40%, a mortgage becomes more desirable. And you also have to consider things like interest rates.

Markets differ, too. Some have already bottomed out. Others are still sliding. But when shopping, don't simply accept the real estate agents' quotes—remember, they work for sellers, many of whom refuse to budge on price. Get an independent appraisal. Check the local tax records, too, to see what prices similar houses have fetched recently.

Think, then, of a home as an investment like any other rather than as something you simply must own. It's no longer a sure thing.

At its height earlier this century, American art pottery ranked with the best from Japan, England and France. Renewed interest is having its effect on prices.

Pots of gold

By Christie Brown

FOR A LIVING Peter Thayer runs Gateway Investment Advisers out of Milford, Ohio. For fun he collects Rookwood art pottery. In all, his large collection of about 60 vases, pots and pitchers has run him only about \$200,000, with most pieces costing under \$6,000. In 1991 he took his biggest flier, spending \$66,000 at a Cincinnati auction for a 20-inch, reddish-brown vase made in 1893.

Thayer's pottery has proved to be a solid if unspectacular investment. "Over the last 12 years Rookwood in the middle range has doubled in price, and pieces at the top end have quadrupled," says Nancy McClelland, head of 20th-century decorative arts for Christie's. But with several important exhibitions and sales now being

mounted, it's expected that prices of Rookwood will soon start shooting up a lot faster.

What exactly is "art pottery"? Basically, the term refers to ceramic wares hand-decorated by artists in small potteries around the U.S. between the late 1870s and about 1930. The catalyst for American art pottery was the 1876 Centennial Exhibition in Philadelphia, which showcased beautiful, hand-thrown ceramics from Japan, England and France. There was nothing comparable in the U.S., where ugly, mass-produced ceramics were then the norm.

One young society matron from Cincinnati named Maria Longworth Nichols (1849-1932) was determined to change that. The daughter



American-made Rookwood pottery, judged the world's best in 1900



Collector Peter Thayer amid his 60-piece Rookwood collection

Since 1980, prices have doubled for midlevel pieces, quadrupled for the best.

of real estate tycoon Joseph Longworth, Nichols hired a team of local artists and started her own pottery in an old schoolhouse given to her by her father. She named the firm Rookwood, after a family estate, and by 1880 was in business. She even made pottery herself, sometimes adorned with bizarre Japanese scenes full of spiders, bats and owls.

Other small art potteries also sprang up and found markets. By 1920 there were over 100 operating around the country. Louis Comfort Tiffany included art pottery in his line.

But none matched Rookwood's success or reputation. In 1900 it won world fame when it came away with first prize at a Paris industrial art exposition, in competition with such renowned houses as Meissen, Royal Doulton and Sèvres. Rookwood was exhibited by museums and carried in the finest stores. Nichols no longer had to support Rookwood, and deeded it to company business manager William Taylor in 1891.

The company thrived until the Depression but closed in 1941. A series of owners later tried to revive the Cincinnati company, with little success, and it was shut down for good in 1967. No serious collector would touch anything made after the 1930s, however.

Thayer was intrigued by the pottery after he saw some in the home of a friend soon after moving to Cincinnati in 1977. From a local dealer he bought a small, plain vase for \$500 and has been ferreting out Rookwood ever since. Two of his favorite sources have been the Cincinnati Art Galleries and the Don Treadway Gallery, both dealers in Cincinnati.

Since 1991 he and other Rookwood fanciers have had an easier time finding choice items at the big annual auction run by the Cincinnati Art Galleries. About 2,000 pieces of Rookwood were sold at the last two auctions, which have boosted both interest and prices. In 1991 a 19-inch Rookwood vase depicting carp was

sold for \$198,000—a record for any American pottery.

"One of the nice things about the Rookwood auctions is they're making the market more liquid," says Thayer.

Rookwood is easy to identify and like all ceramics, hard to forge because the pieces are glazed—an expensive tricky business.

All Rookwood pieces carry a hall mark and are signed and dated by the studio artists. But collectors still have to watch out for repaired cracks which can lower the value of a piece about 40%.

While Rookwood is the long-distance runner in the field, there have been interesting price spikes over recent years for other art pottery from the period.

Rosalie Berberian was an assistant professor at Yale back in the late 1960s when she started collecting everything but Rookwood. "Rookwood was the Rolls-Royce; I preferred the more experimental potteries," says Berberian. Among the most

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Arlene Schaefer

Thayer's 20-inch-high Rookwood vase, dated 1893
Bought for \$66,000 in 1991.

coveted of these is George Ohr, known as the Mad Potter of Biloxi, who specialized in paper-thin pots of twisted and crumpled clay. Others are Chicago's Teco Pottery, Grueby Pottery of Boston—which pioneered an opaque, lusterless glaze—and Hugh Robertson of Chelsea, Mass., famous for crackle glazes.

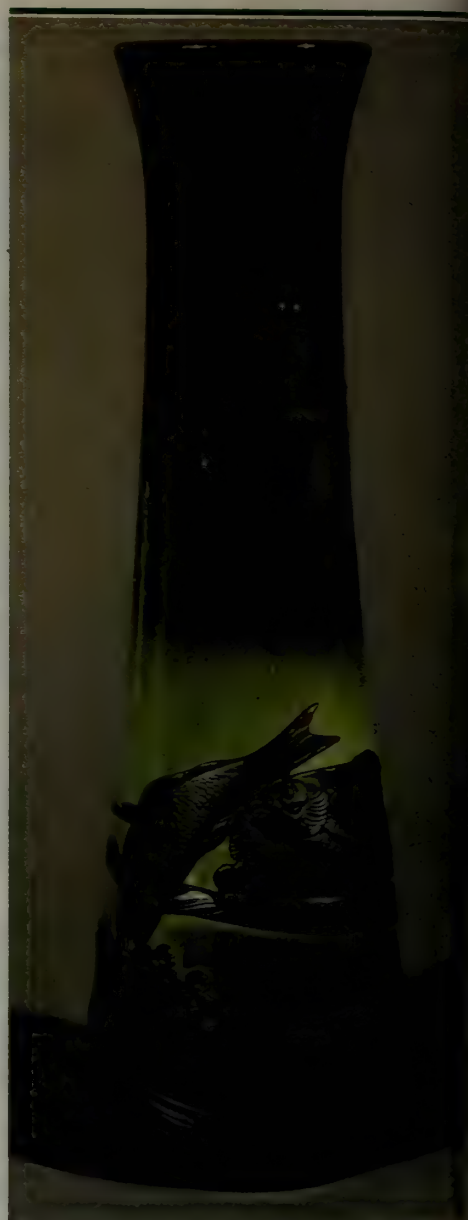
Berberian amassed over 100 pieces, usually paying under \$500 apiece at flea markets and antique shows. She stopped collecting more than ten years ago, after becoming an antique jewelry dealer. She has since watched prices roller-coaster for some of her pottery, particularly Ohr and Teco. Hyped hard by dealers after exhibits in 1989, prices surged for a while but have since collapsed. For example,

one style of Teco vase rose from \$3,000 in 1986 to \$18,000 in 1990, but now sells for as little as \$4,000.

Last month Berberian put her 113-piece collection up for auction with David Rago, a dealer in Lambertville, N.J., who holds six art pottery auctions a year. The collection fetched \$427,000, with 85% of the pieces sold at auction. That was about eight or nine times the amount she had spent over the years on the collection but not as much, she says, as it would have brought a while back.

If you're interested in art pottery, here are the dates of some important shows and auctions this year:

The Cincinnati Art Museum is featuring an exhibit entitled "Rookwood Pottery: The Glorious Gam-



Rookwood vase sold for \$198,000 in 1991
The record for any American pottery.

ble," through June 6. The exhibit moves to the Clark Art Institute in Williamstown, Mass., July 3 through Sept. 12. A catalog of the same title has just been published by Rizzoli. Price, \$40.

The American Craft Museum in New York City is undertaking a series of exhibits on American 20th-century crafts. The first, "The Ideal Home, 1900-1920," which includes pottery, will run from Oct. 21, 1993 through Feb. 27, 1994. An eight-volume survey of American arts and crafts is also being published in concert with the exhibits.

Important auctions of art pottery are slated at David Rago's May 16, the Cincinnati Art Galleries June 4-6 and Christie's June 12.



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No matter how dismal the situation might look, Cheryl Shuman always approaches it with an "I play to win" determination. More than anything else, that's what made her rich.

Beverly hillbilly

By Brigid McMenamin

CHERYL SHUMAN, then 23, was stalled in a Cleveland television and modeling career that seemed to be going nowhere. In 1983 agents weren't returning her calls. She pined to model for Laura Biagiotti, the trendy Italian designer, but she says she couldn't even get through to Biagiotti's casting people.

It was make-or-break time for Shuman. She could have sat around feeling sorry for herself, bemoaning the lot of women. But she didn't. Shuman holed up with Berlitz tapes, gaining enough fluency in Italian to get a chance at competing for an exclusive contract with Biagiotti. She showed up at the modeling agency the day the scouts were there and wowed them with her Italian. She says the scouts told her to hop a plane to Milan.

Bad luck. Shuman never got to hit it big in Italy. On an icy road to the airport in December 1983, her car skidded and hit another head-on. She went through the windshield. With a fractured leg and shattered face, her modeling career was over. "I lost everything," she says.

Except her will to succeed. Here was a woman who had worked herself up from a hardscrabble childhood in rural Ohio. Growing up in tiny (pop. 175) Buena Vista, "We didn't even have indoor plumbing," she recalls. "I was a hillbilly." Young Cheryl earned pocket money trapping field mice for a research lab, but soon realized that her drop-dead blonde looks were an asset she could exploit. Entering beauty pageants, she relished the competition. "I play to win," she says.

Even that career-ending accident didn't defeat her. "Not only was it a

humbling experience, I think it was probably one of the best things that ever happened to me," Shuman says.

Six months later Shuman moved to southern California to start over in a warmer climate. She took a cheap one-room apartment in North Hollywood and a \$5-an-hour job selling



Starry Eyes' Cheryl Shuman

"There is nothing that I can't handle."

eyeglasses at an Encino optical shop. For most people that would be a dead-end job. Not for Shuman.

One day a studio propmaster came hunting for glasses for Shirley MacLaine to wear in the television miniseries *Out on a Limb*. That gave Shuman an idea. Why not take lots of different styles to the set so the star could try them on? He agreed.

Shuman told her boss she'd decided to quit and start her own business. "He laughed at me," she recalls. She took \$14,000 in cash advances on her credit cards, got eyeglass manufacturers to give her 90-day terms and started lobbying the studios for work. "The first month I only made \$3,000, but the second month I made \$14,000." She had found her niche.

And a nice little niche it is. Shu-

man's Starry Eyes Optical Services, Inc. grossed nearly \$20 million last year, providing eyewear for television and movies—and making housecalls to the rich and famous who feel themselves too exalted to go in person to an optical goods store. For customers like Mel Gibson and Demi Moore, for instance, Shuman charges \$300 an hour for her time and sells an average of six pairs to each customer, at around \$300 each.

Shuman worked on Denzel Washington's glasses in *Malcolm X* and designed the wire rims that Nick Nolte wore in *Cape Fear* and on the cover of *People* magazine. Working with the movie prop people, she selects the right frames for the period and character, then makes them up with different lenses for different camera angles. Several pairs of each, just in case she needs them.

On the set of *Terminator II: Judgment Day*, for instance, Shuman stands happily by while a security guard knocks Arnold Schwarzenegger's sunglasses to the ground, then crushes them underfoot. Twenty takes later, Shuman has collected \$4,000 for the 20 pairs of Arnold's sunglasses, thousands of dollars for all the other glasses used in the movie—and \$2,000 for spending the day on the set. Total: over \$35,000. "She's created a job where none existed," says *Eyecare Business* Executive Editor Lee Bayusik.

Starry Eyes recently teamed up with the QVC Network to bring Shuman's designs to 45 million TV households. In a 1992 test run, viewers ordered as many as 5,000 Nick Nolte frames in just 2½ minutes. Call-in sales were strong enough to convince QVC executives to offer Shuman her own hour-long show and a percentage of the take. She declines to say just how much, but in her first hour, she sold nearly \$200,000 worth of shades—as much as the average optical shop sells in a year.

The poverty of rural Ohio is far behind as Shuman, now 33, buzzes around Hollywood in her white Mercedes 500SL convertible. Does she have any advice for other women stuck in seemingly dead-end jobs? "Do what you really enjoy doing."

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Life begins at 80

THIRTY-FOUR years ago Bronx ice cream maker Reuben Mattus, now 80, whipped up a new recipe with less air and more butterfat. Anyone could have done that, but Mattus' marketing genius was to give his confection what he thought was a Dutch-sounding name. Attracted by the European image, affluent Americans picked up the ice cream in fancy gourmet shops. By the mid-1970s the fattening, artery-clogging brand took off. In 1983, with 369 franchised stores and sales over \$100 million, Mattus sold Häagen-Dazs (the words are meaningless) to Pillsbury for \$75 million and a consulting contract.

But when Britain's Grand Metropolitan bought Pillsbury in 1989, Mattus was let go, leaving him rich but unemployed. "They figured I couldn't do my job," he says.

He showed them. Within weeks of leaving Grand Met, Mattus was testing ice cream recipes again, this time looking for a low-fat recipe, settling on one with 3% fat and 160 calories per scoop. Joined by his wife Rose and daughter and son-in-law Doris and Kevin Hurley, who helped him build Häagen-Dazs, he started shipping eight flavors in November 1992.

Now based in Fairfield, N.J., Mattus Ice Cream Co. has lined up distributors and retailers in ten states and expects to sell half a million gallons at \$2.69 a pint this year. It helps the marketing image that the Food & Drug Administration no longer requires low-fat ice cream to be labeled ice milk. But this time no European snob appeal. He's calling the new ice cream—what else?—Mattus'.

"We can fire 'em"

DAN BANNISTER, president of Reston, Va.-based DynCorp, does most of his business with federal agencies. Now he's giving private industry lessons in efficiency.

DynCorp is a \$911 million (sales) privately owned manpower company. For 46 years it has thrived supplying labor to the federal bureaucracy—reading addresses for the post office, examining cancer cells for Health & Human Services, stockpiling petroleum for the Department of Energy. Its biggest client is the Pentagon, for

Häagen-Dazs founder Reuben Mattus and family

A reformed artery clogger, now he's pushing low-fat ice cream.

BELOW: Dan Bannister, president, DynCorp
Can he do for the airlines what he does for the colonel's dishwasher?



whom it maintains military aircraft. DynCorp sent 650 employees to Desert Storm. It manages half a dozen military bases. "We do everything from maintaining the helicopters to fixing the colonel's dishwasher," says Bannister.

Now DynCorp wants to do for the U.S. airline industry what it has done for the government: cut costs by hiring cheaper, mostly nonunion employees. It won its first commercial airline contracts in the 1960s by providing ticketing, cleaning, baggage handling and maintenance services for foreign carriers at U.S. airports. Last year Bannister brought Delta Air Lines into the fold, winning cleaning and provisioning contracts for some

300 Delta flights a day in Miami, Anchorage, Salt Lake City and Los Angeles. Delta, whose compensation is considered the highest in the industry, has pledged to cut costs by \$70 million over two years. DynCorp's \$6-to-\$12-an-hour workers will make up a good part of the savings.

Bannister, a college dropout, has been running DynCorp since 1985. He helped take the company private in 1988 in a leveraged buyout. Last year Bannister paid down the last piece of the \$140 million in buyout debt and redeemed \$33 million in preferred stock.

This year the firm should earn its first profit since the buyout and continue signing airline contracts. North



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west's imminent union contract tangle may prove Bannister's next big opportunity. "We're in the business of supplying people," he says. "The difference between us [and the unions] is we can fire 'em."

—JOEL MILLMAN

Hidden asset

DUFF & PHELPS, the Chicago financial advisory company, is up 50% since its initial public offering a year ago. Investors owe a good deal of thanks to Paul J. McCarthy, head of the firm's credit-rating subsidiary.

McCarthy, 54, took over the credit-rating operations after Duff & Phelps bought his investment research boutique, McCarthy Crisanti & Maffei, in 1991. He quickly set out to gain market share from chief rivals Standard & Poor's and Moody's by improving both the sales effort and the product. He expanded the New York sales office from 1 person to 17 and switched his salesmen's compensation from salary to straight commission. He then changed the pricing formula. Duff & Phelps charges a maximum of \$50,000 for a new bond issue rating, compared with around \$70,000 for Moody's and S&P.

On the product side, McCarthy made his ratings books more user-friendly by listing issues by company instead of by arcane business categories. "They didn't have any market sensitivity when I got here," says McCarthy, who has an M.B.A. from the University of Pittsburgh. "It was hard for investors to even find a rating."

Most important, McCarthy is earning kudos for tough and timely ratings changes. He admits slipping in giving AA+ ratings to bonds issued by a subsidiary of Towers Financial, which is now being sued for fraud by the SEC. But in the last two years, his group scooped competing agencies by weeks and sometimes months in downgrading the debt of GM, IBM and United Technologies. Those calls led institutional investors to lean on debt issuers to pick up the tab for Duff & Phelps' coverage. That pressure has helped the credit subsidiary's revenues jump from \$11 million in 1990 to \$25 million last year.

Now McCarthy is testing new products. He's expanding coverage

Car dealer

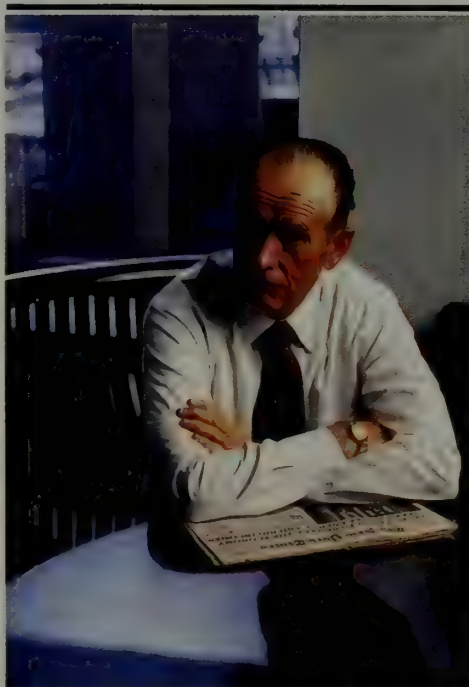
Victor Potamkin

"Would you pay \$50,000 for a car without trying to get a deal?"

BELOW:

Duff & Phelps' Paul McCarthy

Investors are demanding bond issuers pick up his coverage.



into asset-backed securities. And he's started joint ventures with local partners in Latin America to rate corporate debt and commercial paper.

—MATTHEW SCHIFRIN

Iron man

SILVER-HAIRED Victor Potamkin, 81, is one of the nation's great car salesmen. With his two sons and other partners, he controls 53 dealerships—Chrysler, GM, Mitsubishi and Toyota among them—in Florida, Georgia, New Jersey, New York and Pennsylvania. Working out of his New York Cadillac dealership, he says he moves \$1 billion of iron a year.

Potamkin took over Cadillac's moneylosing Manhattan dealership in



1972. "They had been selling 70 cars a month," he says. "After six months I was selling 500 cars a month, and making money." Between 1972 and 1987 Potamkin sold 81,710 Cadillacs, making him the nation's biggest Cadillac dealer.

Potamkin moved the metal with aggressive advertising, heavy promotions and price discounts. But those methods cheapened Cadillac's image and in 1987 GM transferred the Manhattan operation to Roger Penske, the former race car driver, whose other businesses do about \$2.8 billion in sales a year. Penske gave up in 1990 after losing, Potamkin figures, about \$20 million for himself and GM. A year and a half ago Potamkin took over his old dealership. "I've got to keep busy," he says. "Otherwise, they'll throw some sand over me."

GM's latest idea in selling cars is the "one-price" sticker, where the number on the window is firm. That means no haggling over price. But Potamkin says dickering over the sticker price helps sell cars. "Say you want a Cadillac," he says. "The sticker says \$31,000. The one-price store says \$29,000. Would you just pay that, or would you go to another store to see if you could do better? Maybe the one-price concept is okay for a \$10,000 car, but would you just pay \$30,000 or \$50,000 for a car without trying to get a deal?"

Apparently, New Yorkers like a bargain. Re-ensconced in his Manhattan dealership, Potamkin is once again among the top Cadillac dealers in the country.

—JERRY FLINT ■

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declining interest rates (see next page) and rising corporate profits are a good catalyst for rising equity prices, yet there are some soft spots in this market. The prospect of price controls is kicking the steam out of health stocks. Another concern is the recent jump in commodity prices. This was probably a technical aberration, but any rise in inflation would boost interest rates and probably hurt the stock market. What's a good way to hedge this market? Andrew Davis, manager of the Venture Advisers/RPF Convertible Securities Fund, is buying convertible preferred bank stocks. "We're participating in a red-hot sector with less risk than buying the common," he says. One of his holdings is BankAmerica preferred G, yielding 5% and trading at a 20% premium to the underlying common. He also likes the Great Western Financial convertible preferred, with an 8% yield and a 34% premium.

Special focus

Since the October 1987 market crash, the S&P 500 index shows a price gain of 98%, but hundreds of stocks are still selling below their October 1987 highs. The ten stocks below all trade at least 20% below their levels just before the crash. But analysts think these stocks will show a minimum 30% jump in earnings in 1993.

Crash victims

Company	Percent change since Oct 1987 peak
Media General	-54%
Trinova	-43
Marriott	-38
Tektronix	-32
Asarco	-30
Brown Group	-28
Tenneco	-26
Federal-Mogul	-25
Dow Chemical	-25
Olin	-21

The overall market



Closeup on the market

Index or investment	2-week change	% change from 1 year ago	5-year high
Barra All-US index	3.4%	9.1%	-1.0%
S&P/Barra Growth index ¹	3.4	8.6	-2.7
S&P/Barra Value index ²	4.0	17.7	-0.2
Dow Jones industrials	2.9	4.9	-1.3
S&P 500	3.6	10.0	-0.5
NYSE	3.5	9.6	-0.6
Nasdaq	2.8	9.4	-4.0
Amex	2.6	0.6	-1.5
EAFE ³	1.8	-1.9	-26.3
CRB futures index ^{4,5}	2.0	-1.9	-24.1
Gold ⁵	-0.5	-6.4	-34.5
Yen ⁵ (per \$US)	-2.1	-11.5	-28.8
Oil ⁵	8.5	13.5	-48.8

The best and worst performing stocks⁶

Best	Price	2-week change	1993 EPS ⁷	Worst	Price	2-week change	1993 EPS ⁷
NTN Communications	8 3/4	37%	\$0.15	Synergen	15 3/8	-66%	\$-2.13
Gerrity Oil & Gas	17 1/4	35	1.46	Microtest	8	-43	0.72
Arbor National Hldgs	16 5/8	33	1.57	Royal Appliance Mfg	7 1/4	-40	1.20
Roper Industries	34 1/4	32	1.20	McAfee Associates	9	-29	0.74
President Riverboat Casinos	45	31	1.15	Amgen	34 7/8	-29	2.46

The best and worst performing industry factors^{8,9}

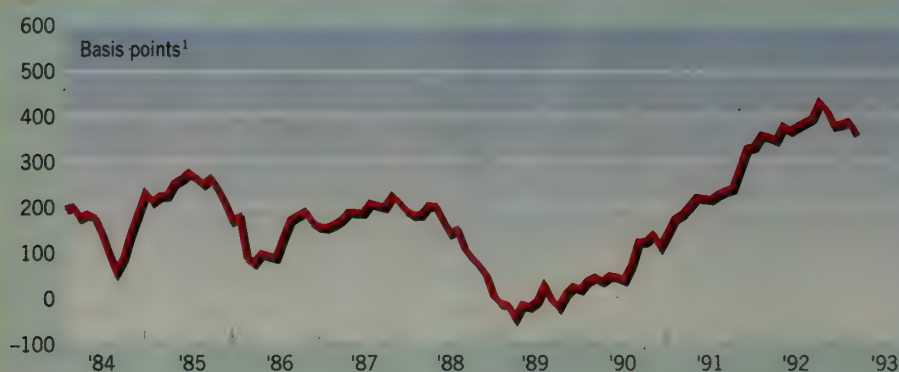
Best	2-week change	Since 12/31/92	Worst	2-week change	Since 12/31/92
Photographic, optical	12.4%	46.9%	Tobacco	-16.3%	-26.2%
Household prods	9.2	8.7	Forest products	-5.3	19.0
Gas utilities	8.7	16.5	Misc mining & metals	-4.3	2.2
Agriculture, food	7.7	2.0	Aluminum	-4.3	-4.7
Oilfield services	7.1	8.8	Trucking	-2.9	-3.3

Source: Data for period ending 3/4/93. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. REITs and closed-end funds are excluded. ¹ Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above-average earnings growth. ² Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³ A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴ Index of 21 commodity futures. ⁵ Knight-Ridder Financial Information. ⁶ During the last two weeks. ⁷ Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. ⁸ Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. Principal source: Barra, Inc., Berkeley, Calif.

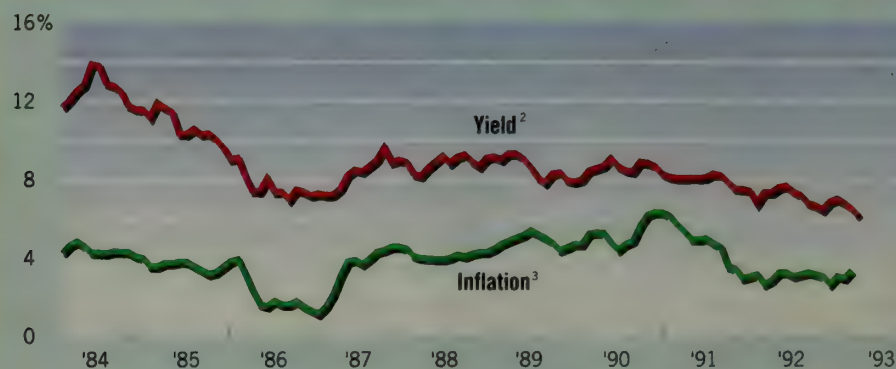
Yield curve



30-year rate minus 1-year rate



Yield versus inflation



Spread over Treasuries

Security	Basis points ¹
AA corporates	60
AAA industrials	53
Ginnie Maes	122
Junk corporates ⁴	534
Municipals ⁵	-194

Total returns

Security	1 year ⁶	3 years ^{6,7}
AAA corporates	14.7%	13.2%
Ginnie Maes	10.4	12.4
Junk corporates ⁴	14.7	20.0
Municipals ⁵	13.8	11.0
Treasury bonds	13.0	12.3

Note: Except where footnoted, all information provided by Barra, Inc., Berkeley, Calif. ¹A basis point is equal to one-hundredth of a percentage point. ²Yield on 10-year Treasury. ³The trailing 12-month increase in the Consumer Price Index through 1/31/93. ⁴Source: First Boston. ⁵Source: Lehman Brothers. ⁶Data through 2/28/93. ⁷Annualized.

Weak credit demand and expectation of low inflation aren't the only factors driving up bond prices and pushing down interest rates. While downgrades still exceed upgrades, overall corporate credit quality is improving despite the lowering of credit ratings for a few troubled companies such as GM and Sears. In 1992 Moody's Investors Service downgraded only 22 bonds, 35% fewer than in 1991. That's the lowest number of downgrades since 1987. Meanwhile, the number of upgrades rose 14%, to 13.

While municipal bond ratings are not improving as dramatically, tax revenues are running ahead of forecasts in many states, which bodes well for future credit upgrades. One moribund state like Texas and Massachusetts are in this category. But Richard Ciccarone, director of tax-exempt research at Kemper Securities in Chicago, says it's too early to bet on California municipals.

Another catalyst for lower tax-exempt rates, of course, is investor expectations of higher taxes. Despite the recent rally, Ciccarone still sees few undervalued sectors. Investors should consider Michigan municipal obligations, especially local education bonds. This debt has an implicit guaranty from the state but trades at prices that reflect the risks of typical school bonds.

On the government side, don't be overly tempted by the superior yield on mortgage-backed paper (see bottom left). Bonds issued by agencies like GNMA and FNMA are subject to early refinancing, which is even more likely when mortgage rates are falling. Note how total returns on Ginnie Maes lagged other sectors (even munis) during the latest 12 months.

While these are extraordinary times in the credit markets, Joseph Carson, Dean Witter's chief economist, offers words of caution: "Bond prices have gotten light-years ahead of themselves." Carson is looking for a fairly strong economy for the next two years—4% real growth—and says that rising interest rates will be an inevitable result of an economic expansion.

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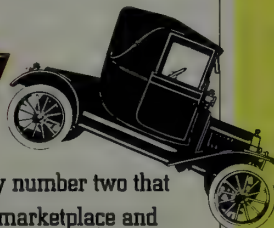
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HAMILTON by Jude Wanniski.



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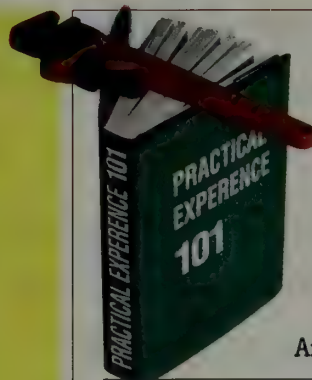
GENERAL MOTORS BEAT FORD

...Fenster.

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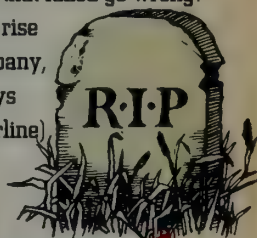


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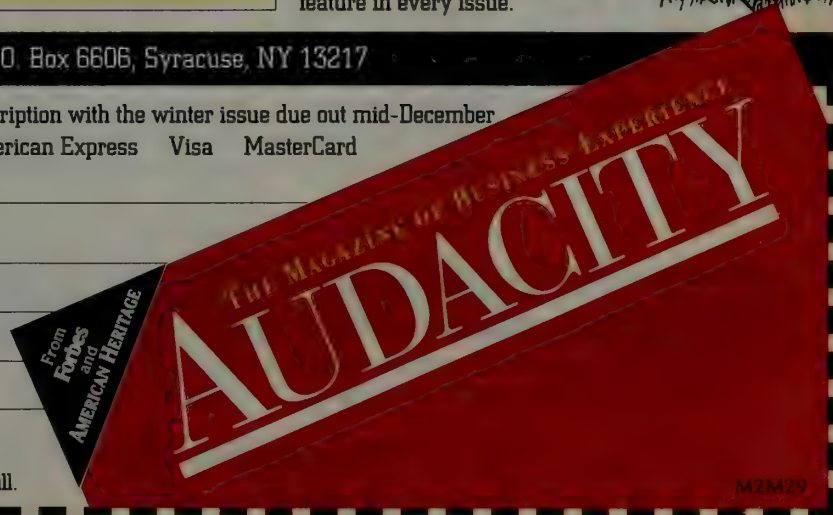
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M2M29

Brokers have been pushing back-end load funds like there's no tomorrow. When tomorrow comes, a lot of sponsors and shareholders alike may be sorry.

Attack of the killer B shares

By Mary Beth Grover and Jason Zweig

WHAT IS IT about funds with back-end loads that makes them such a spectacular success in the marketplace? Stockbrokers persuaded their customers to consume some \$43 billion of these things last year, generating \$1.5 billion in sales commissions for the brokers.

Could it be that buyers aren't quite hip to the fact that one way or another they are still paying a load? If that's the case, some fund operators could be in for considerable grief if a controversial accounting change is implemented. The new accounting standard could force fund operators to make back-end loads very visible by disclosing a "net asset value" that is lower than the "offering price" at which customers are buying into the fund.

Funds with back-end loads go through a convoluted routine to compensate the brokers who sell them. Suppose a customer pays \$10 for a fund share—typically called a class B share—that is subject to a maximum 6% back-end load. The broker who sold the fund gets 60 cents from the fund sponsor, who recoups the outlay by assessing a 12b-1 fee at a rate of, say, 1% a year on fund assets. Some operators—notably, Eaton Vance, Pilgrim Group and Keystone—borrow money to cover the brokerage commissions and then, in effect, back up the loans by promising that the 12b-1 fees will be paid until the loan is retired.

There's a load on shareholders who decide to exit early. The fund might, for instance, impose a 6% exit fee that declines in steps to zero in year seven. Thus does the sponsor guarantee that it will recoup from every customer the



full pound of flesh collected by the broker.

The accounting change, which is still in the debating stage at the American Institute of Certified Public Accountants, threatens to throw a big wrench into the thriving back-load fund business. The theory behind the change is this: Since some prospectuses suggest that the loans to pay the brokers their commissions up front are a direct obligation of the fund, future 12b-1 fees should be recorded as a liability immediately, which could take a bite out of NAV. So the offering price of the fund might still be \$10, but the NAV column next to it in the newspaper would read, say, \$9.60. And broker-sold funds would lose yet another crop of customers to the no-load Vanguards and Fidelitys.

If you have read this far you probably know better than to pay a load, front, back or sideways. But if you are thinking of investing in an operator of mutual funds, read on. The wonderful 12b-1 machine has other hazards.

So successful have been the back-

end load funds that some sponsors are indebted to banks and finance companies for loans to pay the brokers. Thus, Eaton Vance Corp., sponsor of \$6.5 billion in back-load funds, has shareholder equity of a mere \$77 million but carries a \$160 million asset called "deferred sales commissions." For now, that's a pretty solid asset, since even if every customer redeemed tomorrow, putting the funds out of business, Eaton Vance would collect an ample sum in back-end fees.

But what if the market tanks? If every Eaton Vance fund dropped 50% in value, 12b-1 revenues, figured on percent of assets, would collapse to half of what Eaton is counting on. So would prospective back-end fees. We're not saying this is going to happen, just that you should think about stock and bond volatility before buying shares in Eaton at a recent 36 or about three times what they were trading at just two years ago.

If all this were not enough to keep fund vendor up at night, there's the Internal Revenue Service. The IRS is taking a close look at the 12b-1 accounting used by Eaton Vance on its municipal bond funds. At most funds 12b-1 fees come off the top of interest and dividend income, minimizing taxable distributions to the shareholders. But such a deduction would go to waste in a muni fund, since interest is federally tax-exempt anyway. So, Eaton Vance just lowers the NAV at a rate, say, of 1% a year. That helps shareholders when they sell out of the fund—by lowering the capital gain (or increasing the capital loss) generated on the sale. The IRS may issue a ruling later this year.

Finally, the IRS may challenge fund sponsors over the way they account for back-end loads on their own tax returns. So far they have been expensing for tax purposes the upfront cash paid to brokers. But their book profits reflect the slow amortization of these outlays over the period that the back-end loads are in effect. The IRS may decide that amortization is appropriate on the tax return, too. It could be after Kemper Corp. for \$29 million on this account and other sponsors for undisclosed amounts.

Maybe back-end loads aren't such a brilliant idea after all.

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Issue Date: May 24, 1993

Closing Date: March 29, 1993

If your broker calls to pitch you on a real estate investment trust, first listen to a few pointers from the curmudgeonly dean of the industry.

Healthy, wealthy and wise

A FELLOW named after Benjamin Franklin should certainly be prudent, thrifty and well stocked with common sense. But isn't Benjamin Franklin Kahn, the 68-year-old president of Washington Real Estate Investment Trust, taking this Ben Franklin stuff a little too far? While debt financing is the norm in real estate, Washington REIT has just finished paying its loans down to zero. Kahn's second-floor walk-up office—blotchy plywood paneling, scuffed leather furniture—is decorated with a little bronze bust of Benjamin Franklin, and the patriot's autobiography leans against Graham and Dodd's *Security Analysis* on Kahn's bookshelf. When his spectacles slide down his nose, Kahn even looks a bit like his namesake.

There is one big difference between the two Benjamin Franklins: Kahn doesn't care if the federal government keeps growing at a rate that would horrify the signer of the Declaration of Independence. U.S. agencies are among Kahn's biggest tenants, occupying about 8% of Washington REIT's total commercial space. Just about all his other tenants thrive on a fat government.

What about Bill Clinton's plan to eliminate 100,000 bureaucrats? "Eisenhower came in saying he was going to cut government, too," says Kahn, adding with a cackle: "He fired 70,000 Democrats. Then he hired 80,000 Republicans!"

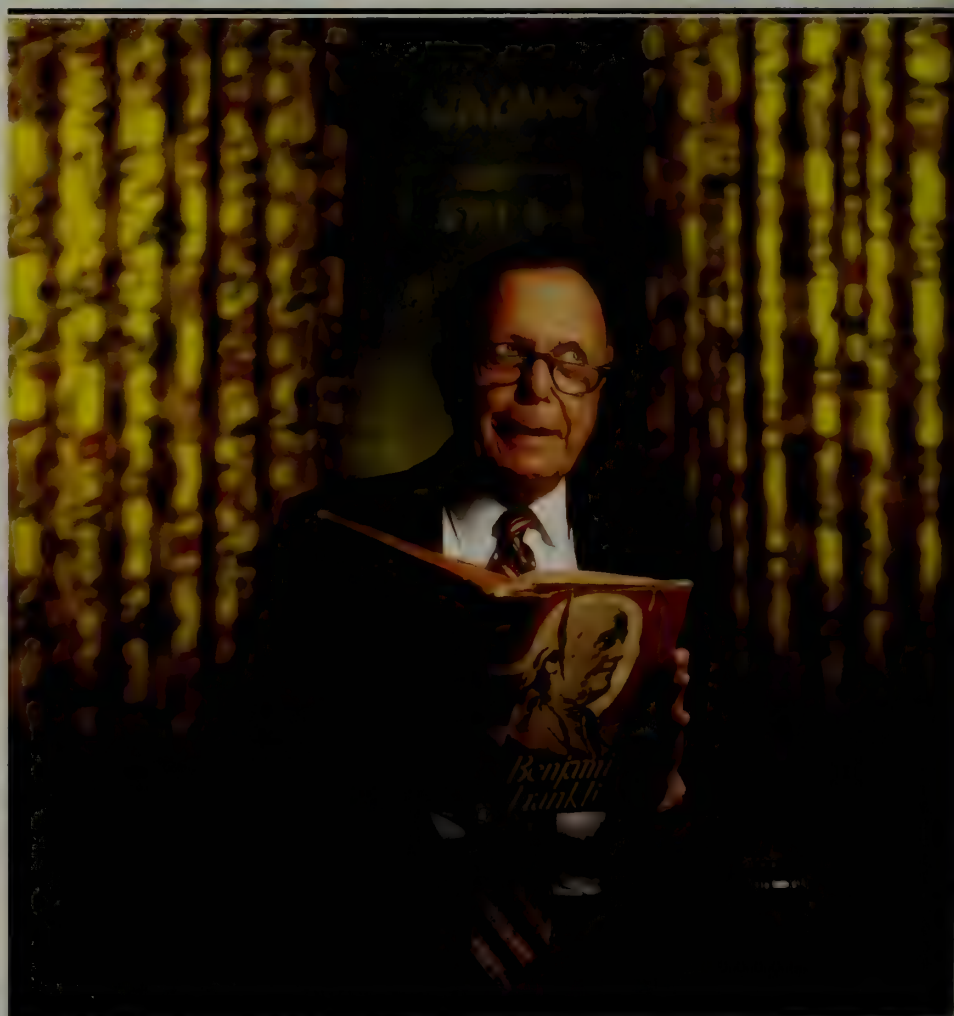
Kahn splits his firm's assets almost evenly among apartment houses, office buildings, shopping centers and warehouses. But he doesn't diversify geographically, as such REITs as New Plan Realty Trust and Kimco Realty

have done. All but three of Washington REIT's 32 properties are a quick drive away from its offices on a side-street in Bethesda, Md., and the farthest is in Dover, Del. "Unless you're an Equitable or a Prudential," says Kahn, "you shouldn't diversify 1,000 miles from home. Our folks know what's happening here. We don't

have to depend on a broker in Chicago to lease a building for us."

Kahn counts the giant Department of Justice among his customers, but he really prefers the little tenants. Take the 7700 Leesburg Pike office building in Tysons Corner, Va., which Kahn bought in 1990 for \$7.1 million. The stunning semicircular building was just 60% occupied, with 33 tenants averaging 2,400 square feet apiece. Kahn added two elevators so tenants could get to the far ends of the building more easily. Then he subdivided and renovated the empty space. He cut per-foot rates slightly but more than made up the loss by boosting occupancy, which is now 80% and still climbing. The building's 53 tenants average 1,800 square feet each and generate 18% more in total annual rents than they did in 1990.

Not to be mistaken for a real estate limited partnership, a REIT is an investment pool that has at least 75% of its assets in real estate and pays out



Washington REIT President B. Franklin Kahn
Buy at 10 times earnings, sell at 22%.

at least 95% of taxable income to shareholders. Mortgage REITs, which invest mainly in real estate debt, not equity, draw the wrath of Kahn. "I'd rather own prime properties and keep growing capital at them to increase their cash flow," he says, "than lend to the owner and get paid back with inflated dollars."

Kahn knows his market. In high school, he worked summers in a Washington realty appraisal firm. After getting a finance degree from Georgetown, Kahn spent several months as a hod carrier and surveyor at house construction sites in the Washington area. "I decided I ought to understand exactly what went into buildings," he recalls.

Kahn founded Washington REIT a few months after Congress passed the first REIT law in 1960. Over the last two decades the firm has racked up a 15% compound annual return, including dividends, which have risen every year since 1970. When the market for office buildings in Washington got overheated in the late 1980s, Kahn's shareholders came through unscathed.

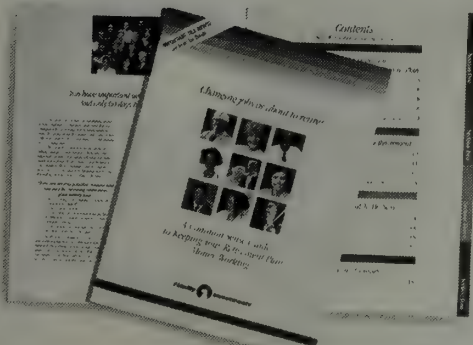
Result: "For us, raising capital is the most dilutive most of the time," says Kahn, meaning that Washington REIT's remarkable long-term record allows him to sell stock at a premium price. Look at this deal: Kahn raised \$42 million in a stock offering last June at \$17 a share, or 22 times Washington REIT's operating income (pretax profit, before depreciation). Then he used \$21 million of the proceeds to buy a 200,000-square-foot shopping center in Gaithersburg, Md. That price came to a mere 10 times the shopping center's operating income.

Thrifty admirers of the original Benjamin Franklin should think twice before buying Washington REIT, which trades on the American Stock Exchange at 22¼. To judge from the Gaithersburg deal, Wall Street is pricing this real estate portfolio at considerably more than twice what it could bring in a liquidation. But investors would find a thorough review of the company's annual report a useful antidote against any urge they might have to buy into some of the newer REITs currently being peddled by stockbrokers. —J.Z. ■

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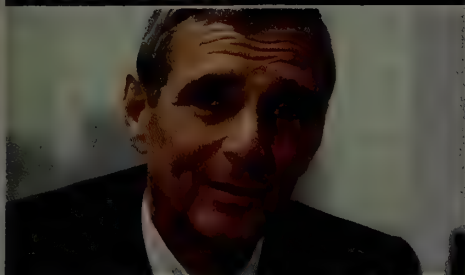
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Once in a great while a group of stocks presents a magnificent buying opportunity. Pharmaceuticals aren't there yet, but it's time to start nibbling at the group.

One man's panic . . .

BY DAVID DREMAN



David Dreman is chairman of Dreman Value Management, L.P., Investment Counsel, New York, and author of *The New Contrarian Investment Strategy*.

AS A MONEY MANAGER I am often asked: How much diversification should a portfolio have? Unfortunately, there's no simple answer. Own too many stocks and you have an index fund, which is likely to bring you returns in line with the market. Own too few and your risk goes up substantially. Most often investors who hold only a handful of stocks own them in red-hot issues. It's a bet against long odds, with most players losing.

However, there is a middle road that, if executed well, will provide the protection of a well-diversified portfolio along with many of the rewards of a highly concentrated one. The essential rule in picking stocks for such a portfolio is: Avoid stocks the public is infatuated with, such as today's emerging growth issues or initial public offerings. As the biotechs have once again demonstrated, when concept stocks come down, they crash and burn.

So instead of buying hot stocks, buy cool stocks. Buy in those groups that are at a point in their market cycle where there is widespread panic in the group as a whole and prices are trad-

ing on an almost-going-out-of-business basis. Don't buy a group simply because it has been knocked down. The industry must also have strong fundamentals, making it clear that the market is overreacting.

Bank and other financial stocks were in such a phase in 1990. By the end of the third quarter, the average bank had dropped 50% for the year, with many down 70%, 80% or more. Market letter writers were advising their subscribers to short the banks. At that time the headlines were terrible, but the fundamentals were improving, and many good bank stocks offered stratospheric dividend yields. In short, checking the fundamentals showed this to be a value player's dream. Within two years the average bank and financial stock had doubled, and many were up four- or even fivefold.

When buying into a panic-hit group, be sure, however, that you spread your risks. My Dreman High Return Fund, which specializes in out-of-favor situations, took a position of over 50% in bank, financial service and insurance issues; it owned a couple of dozen such companies. If we had been wrong on any one stock, we might have gotten stung, but we would not have been seriously hurt.

This technique of diversifying among the out-of-favor groups isn't one for people who require instant gratification. If you expect your stocks to respond to your buying them by going up immediately, this strategy is not for you. You must be willing to sit with losses, as stocks you have bought, already knocked down sharply, drop another gut-wrenching 20% or 30% before the turn. The cardinal rule is patience.

Above all, you must pick your occa-

sions carefully. Not every depressed stock or group of stocks is a bargain. Finally, this is not a strategy for all seasons.

Do I see another outstanding opportunity out there now with bargains equivalent to those in bank and financial issues in late 1990? While it is not as clear as with the banks, a major oversold situation is beginning to become apparent in the pharmaceutical stocks, which were knocked down sharply last year and have continued their decline since the President's State of the Union message.

No question, the pharmaceuticals are under heavy investor fire and the pressure will probably get worse. I would be surprised if the drug industry didn't trend lower from here. So take only partial positions now, adding gradually at lower prices if those occur. Here are five I would look at. All have low P/Es, conservative earnings estimates, strong balance sheets and above-average yields.

American Home Products (61) is a leading producer of prescription and proprietary drugs. Earnings should be up again this year, with continued increases in the next few years. The stock trades at a price/earnings ratio of 13 and yields 4.6%.

American Cyanamid (50) is a major manufacturer of ethical drugs as well as health products and specialty chemicals. The stock has been knocked down near its 12-month low, although 1993 earnings should be about 10% above 1992's. Cyanamid's stock trades at a P/E of 11 and yields 3.3%.

Bristol-Myers Squibb (57) is one of the leading pharmaceuticals, with a 13% rate of earnings growth over the past decade. The stock trades at a P/E of 13 and yields 5%.

Eli Lilly (51) has been battered both by the negative industry psychology of drug stocks and by lower-than-average, near-term, new product development. All the same, earnings should be up 13% this year from 1992. Lilly trades at a P/E of 8 times estimated 1993 earnings and yields 4.7%.

Upjohn (27), another major ethical drug supplier, is back down to its price level following the 1987 crash. The stock trades at a P/E of 9 and yields an incredible 5.4%. ■

Brokerage houses are reluctant to issue sell signals; investment letters are not. Which letters have the best "sell" records and which stocks do the champions dislike?

The hit lists

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (Dearborn Financial Publishing).

HERE'S A NEW MEANING for "closing the barn door after the horses have bolted." Several major brokerage firms—including Merrill Lynch and Prudential Bache—waited until late February to downgrade their opinion of Amgen from "buy" to "hold." Which was after the company announced that earnings wouldn't meet analysts' expectations. And after Amgen had already fallen to 36 from its 52-week high of 78.

Brokerage firms operate under a set of incentives that bias them to the "buy" side. Not wanting to alienate companies that are or may be underwriting clients, for example, it is rare for a brokerage firm to come right out and say that a stock ought to be sold. The worst they can bring themselves to do to a stock is downgrade it to a "hold." And even then, as the Amgen case illustrates, a stock's price often must drop by quite a bit before a brokerage firm even does that.

Investors may well wait in vain for their brokers to tell them what and when to sell.

Say this for investment letters: Whatever their shortcomings, they suffer no inhibition about telling their

readers when to get out—or stay away. The *Value Line Investment Survey* and the *Zweig Performance Ratings Report*—among others—make a point always to offer an equal number of stocks for selling (or selling short) as they do for purchase. A few—most notably the *Overpriced Stock Service*—focus exclusively on the short side of the market.

The *Value Line Investment Survey* has served investors well on the sell side. This will come as a surprise to many: While the performance of Value Line's Group 1s (highest-ranked stocks) is well known, few appreciate that its Group 5s (least-liked stocks) have underperformed the market by just as much as their Group 1s have outperformed it.

Zweig's stock-ranking system does even better than Value Line's on the sell side. Value Line's Group 5 stocks—even though they have underperformed the market—still increased in price over the last several years. Last year in particular was a tough one for the *Value Line Investment Survey* (see my Feb. 1 column), because its least-favored stocks from the end of 1991 gained 20% during 1992. Someone who shorted them would have lost money.

In contrast, the least-favored stocks at the end of 1991 in the *Zweig Performance Ratings Report* fell by 13.5% in 1992.

There are other methods for choosing short-sale candidates, of course, but I have come across none that do better than the Value Line or Zweig ranking systems. One method about which I receive lots of mail recommends selling stocks short when their dividend yields are at historically low levels. (This is just the inverse of the strategy that calls for buying stocks

with historically high yields—an approach that has beaten the market; see my Nov. 9, 1992 column). Unfortunately, however, the dividend-yield approach doesn't seem to work very well on the sell side. I calculate that the short-sale candidates identified by this method over the past three years actually increased in price by more than the market—making them unprofitable as short sales.

I also haven't been very impressed by attempts to use fundamental analysis to pick stocks to sell short. Timing is everything on the short side, and can take years for the market to get around to agreeing with your assessment. Consider the record of the *Overpriced Stock Service*, for example, which uses this approach to identify short-sell candidates: Over the past three years its model portfolio has lost a stunning 82%.

Okay, what sales or shorts are the Value Line and Zweig ranking systems recommending currently? Both see bleak prospects for the computer software and electronics industries; number of companies in these industries are in both ranking systems' downhouse: American Software (recent price, 7, o-t-c), Commodore International (5), Hewlett-Packard (7, which also is in the aerospace and defense industries), Storage Technology (25) and Telxon (11, o-t-c).

IBM (56)? Both ranking systems still give IBM their lowest rankings, despite the fact that the stock is already down some 50% from its 52-week high.

Other industries that are well represented on both the Zweig and Value Line sell/short lists: aluminum (Alcan Aluminium—19, Reynolds Metals—53); retailing (Fabri Centers America—15, House of Fabrics—1, Gottschalks—8 and InterTan—5); medical supplies (Molecular Biology systems—18, Nichols Institute—Amex); chemicals (Imperial Chemical—74, Monsanto—53); and paper and forest products (James River—20, Stone Container—17).

Other stocks that are among the least favored by these two ranking systems are Chiquita Brands International (15), JWP Inc. (5), L.A. Gear (9), National Pizza (7, o-t-c), Pot Systems (13, Amex), Precision Cap parts (23), Quanax (18) and Uni-Chip (13).



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High-stepping Foote

OF THE MAJOR U.S.-based advertising agencies, Foote, Cone & Belding Communications, Inc. has been tops in stock market performance so far this year. While Interpublic is down and Omnicom flat, FCB's Big Board stock recently hit 35¼, up 12% since the beginning of January.

Despite the runup, analyst Alan Gottesman of PaineWebber says FCB stock is still a buy. He estimates it will earn \$2.30 a share this year, up 15%. So the stock sells for 15 times his 1993 estimate. Last year the Chicago-based firm had revenues of \$353 million.

In 1992 FCB added the equivalent of \$40 million in annual revenues from new business, a 13% gain. Plus it picked up new assignments from old clients. So far in 1993, FCB has been selected by Northwest Airlines for international advertising and by Alka-Seltzer Plus, both new clients.

As of Sept. 30, 1992, payables exceeded receivables for the first time in four years. Total debt is down, from \$105 million on Sept. 30, 1991 to \$44 million a year later. FCB has been writing off questionable assets, such as a plant associated with a direct-response firm acquired a few years ago. In 1992 these writeoffs offset what would have been a one-time boost to earnings from the adoption of a new accounting standard.

There are 11.4 million shares. Employees own over 25%. Publicis S.A., a big French ad firm with which FCB has struck an alliance, owns 20%. (FCB, in turn, owns 26% of Publicis.)

The sneaker wars

NIKE, INC. (73¾) is down 19% from its alltime high, and Reebok International Ltd. (35¼) is off 8% in a generally strong market. Are the stocks a buy? Don't chase them, says research associate Dana Eisman Cohen of Sanford C. Bernstein & Co.

Both are feeling the effects of the European recession and the strong dollar, which cuts into margins overseas. As for the U.S., how many expensive pairs of sneakers will people

buy? Here, \$3 billion (fiscal 1992 sales) Reebok has the leading share of the women's market but a much smaller share of the men's. For \$3.4 billion (1992 sales) Nike, the opposite is true. Each wants to take share from the other in the area where it lags, which spells blood in the streets.

Stoughton, Mass.-based Reebok and Beaverton, Ore.-based Nike have weighed in with new product lines and marketing campaigns. The star of the Reebok men's effort is Shaquille O'Neal, pro basketball's highly touted All-Star rookie center. For Nike it's Michael Jordan, its longtime spokesman and the sport's reigning superstar. In the women's market, it's Nike's "Dialogue" campaign versus Reebok's "I Believe" effort.

Campaigns like these don't come cheap. Cohen estimates that in 1993 Reebok and Nike together will spend over \$300 million on advertising and promotion in the U.S. That's after a big jump in 1992, an Olympics year. As marketing costs keep rising, both in dollars and as a percentage of sales, she expects only low single-digit U.S.



Reebok's Shaquille O'Neal versus Nike's Michael Jordan
Their battle royal doesn't make either stock a buy.

profit growth for both companies.

For the fiscal year ending May 31, 1993, Cohen estimates Nike will earn \$4.75 a share, up just 10%. She sees a 13% increase, to \$5.35, in fiscal 1994. Cohen expects Reebok to earn \$2.90 a share in 1993, up only 7%, and \$3.30, a 14% increase, in 1994. Not the sort of gains that are likely to drive already high-priced stocks higher.

Give me Liberty, or . . .

BANK STOCKS, among the market's leaders for over a year, show little sign of ending their bull run anytime soon.

Among those on a tear is \$2.4 billion (assets) Liberty Bancorp, Inc., whose shares have more than doubled, from 14 to 32, in about a year. Formerly named Banks of Mid-America Inc., Oklahoma City-based Liberty is Oklahoma's second-largest bank holding company. More than the stock was up: Liberty last year earned \$11 million, or \$2.01 a share, up more than 200% over 1991.

Hold it, though. Liberty is trading for an impressive 16 times trailing 12-month earnings, and those earnings aren't as solid as they might be. About one-fourth of the 1992 profits were accounted for by net operating losses carryforwards accumulated during the oil bust years. Another 26 cents also came from reducing reserves for losses on repossessed real estate. Finally, Liberty netted about 70 cents a share on gains from the sale of repossessed real estate. These are mostly one-time gains, with a repetition unlikely in 1993. Combined, they accounted for all but 54 cents a share of Liberty's reported earnings.

This year Liberty expects some tax benefits, thanks to accounting changes, and the consensus among analysts is that it will earn \$2 a share in 1993. On the plus side, a out-of-state institution may want to acquire Liberty as an Oklahoma foothold; 44% of the 8.8 million out-of-state shares are closely held. But any takeover premium would seem to already be reflected in the recent share price, so the risk seems all on the downside, especially

1993 earnings disappoint.

—WILLIAM P. BARRETT

Blue Hawaii

BANCORP HAWAII, INC., the Honolulu-based holding company for Banc of Hawaii, has lagged the bull market in bank stocks, its shares stuck roughly between 40 and 50. Recent NYSE price, 50%.

What ails Bancorp Hawaii stock? Concerns that the depth of both the California recession and the Japanese downturn will have a lasting effect on Hawaii's economy. Tourism is down

construction in the state, which was stalled. Last year Bancorp Hawaii's nonperforming assets almost doubled, to \$93 million.

The worries may be overdone. Analysts Brent Erensel and Michael Mayo of New York's UBS Securities think so. Bancorp Hawaii has a dominant, nearly 50% market share in its home state. Its reserves are \$129 million, a conservative 138% of nonperforming assets. Commercial real estate accounts for less than 18% of total loans. The two analysts are confident that, in the long term, the company will benefit from the secular growth of the Pacific Rim economies. Finally, Bancorp Hawaii is adding to its lucrative trust management business through the \$1 billion acquisition of \$2.8 billion (assets) American Financial Services. While this will lead to a bit of near-term earnings dilution, the opportunities for cost-cutting are substantial. The analysts estimate Bancorp Hawaii will earn \$5 a share this year, up 10%, and \$5.50 in 1994. How many stocks with excellent long-term prospects sell at nine or ten times earnings today? They predict the stock will go up 65% over the next 12 months. Shares outstanding, 28 million.

Granite's feet of clay

EVEN BEFORE the election, investors had pulled up construction stocks on the expectation that a Clinton presidency would spend more money on public works. Among those stocks that benefited was \$518 million (sales) Granite Construction Inc., which rose from 16 to 24 on the o-t-c.

Talk about misplaced hopes! Waterville, Calif.-based Granite has been reeling from the deep recession in its home state, and last year the heavy construction contractor earned just 34 cents a share, down 77% from 1991. Granite's 11.7 million shares are back to a recent 20.

Even after that retreat, the stock's a bargain, says analyst Richard Rossi of Dean Witter Reynolds. Rossi thinks that California is a long way from turning a corner, predicting that Granite's earnings will be flat this year, and may return to only 75 cents a share in 1994. Overpriced by almost any standard.



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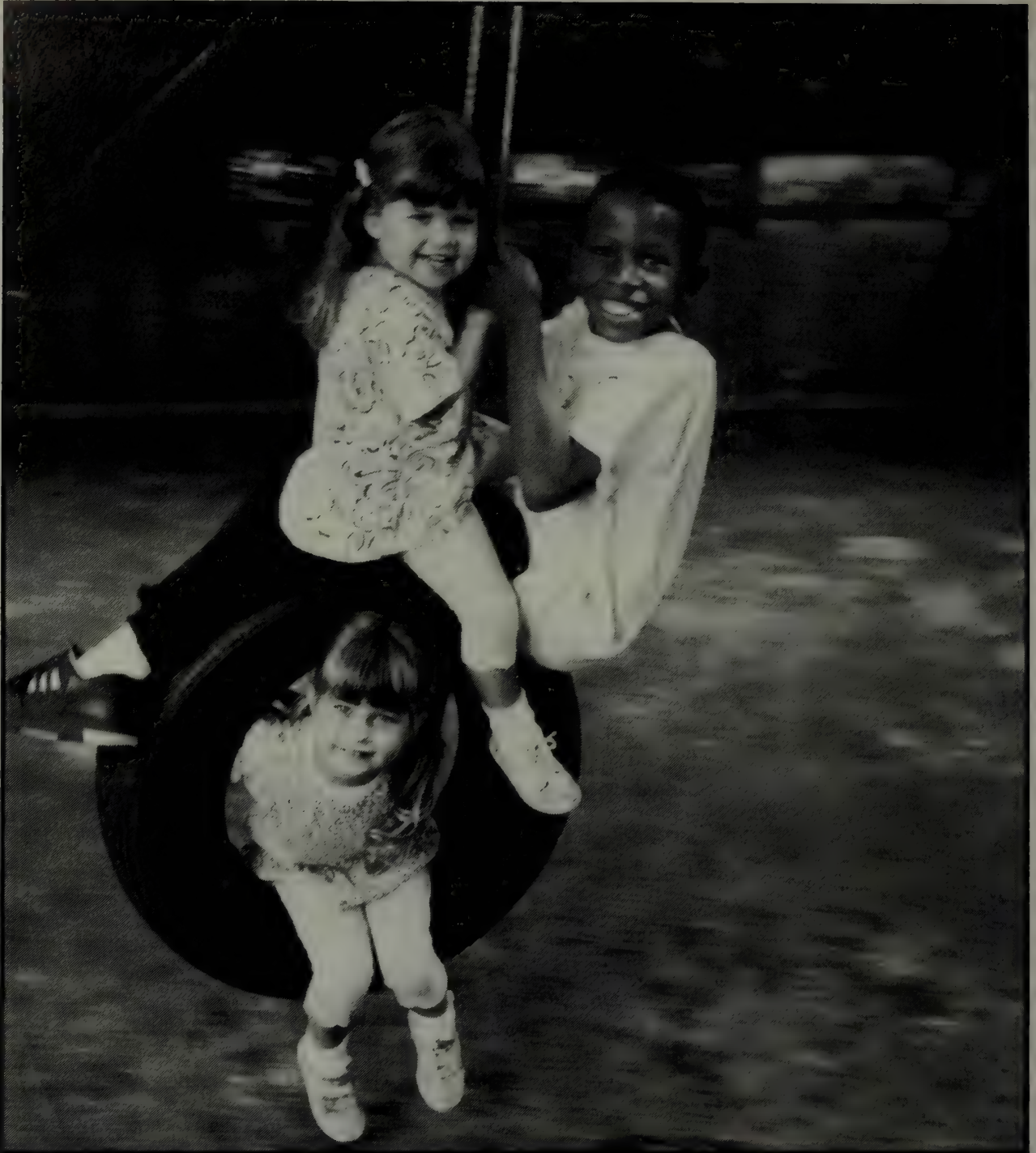
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he more things change . . ."

0 years ago in FORBES

(FROM THE ISSUE OF MAR. 31, 1923)

Signs of permanency in the recent upward movement in business and industrial activity throughout the country are seen by Secretary [Andrew] Mellon. He expects business generally to continue at its present volume, with an upward trend in some lines, for at least a year and, if there are no excesses in the way of disproportionately high prices and wages, for two years more."

Union workers in the Fall River cotton mills are demanding an increase of 29% in wages and have authorized their leaders to call a strike. The Susquehanna Silk Mills Corporation of Sunbury, Pa., announced an increase in wages in the form of a 10% bonus. This is in addition to 10% granted last fall."



New 20-story addition, vintage 1923, to the New York Stock Exchange.

60 years ago

(FROM THE ISSUE OF APR. 1, 1933)

"Alfred Sloan and General Motors have come to the rescue of Detroit in its dire need for banking facilities. Briefly, General Motors has furnished \$12.5 million common-stock capital and the Reconstruction Finance Corporation \$12.5 million preferred capital to give Detroit a first-class bank capable of meeting that metropolitan community's large-scale needs."



Beer—only 3.2% alcohol, to be sure, but indisputably beer—reappeared on the Depression-ridden American scene at midnight, Apr. 5, 1933.

"Will beer 'bring back prosperity and employment'? Brewers themselves gasp at the fantastic estimates now in circulation concerning the new business that will come from beer. But careful calculations, checked in most cases with pre-prohibition figures, indicate that brewers will spend nearly \$400 million for new buildings and equipment, and will employ 80,000 workers in production."

50 years ago

(FROM THE ISSUE OF APR. 1, 1943)

"Forces of inflation will stage a creeping advance—orderly but ever upward—which will boost the cost of living close to 20% for the year 1943. Price increases this incoming quarter probably will average more than 5% . . ."

"A 'self-service' phone, which actually answers itself, is an idea which will ring the bell with postwar subscribers. After several rings, the receiver hook lifts automatically, the caller is signaled to speak, and his message is recorded on a winding reel. When concluded, the hook drops back to normal. The absent 'callee,' returning, simply picks up the receiver and listens to a 'playback' from the reel."

25 years ago

(FROM THE ISSUE OF APR. 1, 1968)

"The rate war is warming up in California, home of BankAmericard, the first major bank credit card. Under heavy pressure from Master Charge, a competitive credit card sponsored by four big banks and 76 smaller ones, Bank of America has eliminated its 4% and 5% discount (share of sales) categories, which applied to 5,600 of BankAmericard's 80,000 outlets, and is charging all merchants between 1% and 3%."

"It's the same idea as the bull market. More people want to climb aboard and follow the crowd. It's mob psychology, it's just as simple as that. You can raise the money to start the funds more easily when stocks are going up. When there's lots of cash flowing into the market, everybody's optimistic and looking for a quick buck."

—Fund veteran T. Rowe Price

10 years ago

(FROM THE ISSUE OF MAR. 28, 1983)

"Farmers are still falling behind on their debts, the Farm Credit Administration says, alarming the bankers, who hold more than 35% of farm debt. . . . Walter Minger, senior vice president of the Bank of America, says 5% of his farm customers are in 'serious trouble' and 25% have rolled over loans to stay afloat. . . ."



Toys "R" Us' Charles Lazarus and friend.

"Is Toys 'R' Us getting short of breath? Don't bet on it. Unlike most superfast growth companies, Toys may be just hitting its stride. For Charles Lazarus, its founder and chairman, the best may be yet to come. 'Everybody enjoys buying toys,' says Lazarus. 'It's fun, and that makes it a fun business.'"

"Contrary to popular opinion, most factories that close are not multistoried antiques victimized by voracious labor unions. After studying 171 of more than 1,000 plants closed in the 1970s, [Duke's Roger] Schmenner concluded that the average age at folding was 19.3 years, the median only 15. A third were under 6 years old and two-thirds had the supposedly efficient one-story layout."

For my part, I rather distrust men or concerns that rise up with the speed of rockets. Sudden rises are sometimes followed by equally sudden falls. I have most faith in the individual or enterprise that advances step by step. A mushroom can spring up in a day; an oak takes 50 years or more to reach maturity. Mushrooms don't last; oaks do. The real cause for an enormous number of business failures is premature over-expansion, attempting to gallop before learning to creep. Sudden successes often invite sudden reverses.

—B.C. FORBES

A Text . . .

Though I walk in the midst of trouble, thou wilt revive me: thou shalt stretch forth thine hand against the wrath of mine enemies, and thy right hand shall save me.

—PSALMS 138:7

Sent in by Douglas Marden, Princeton, Mass. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

If you turn the imagination loose like a hunting dog, it will often return with the bird in its mouth.

—WILLIAM MAXWELL

The best way to keep one's word is not to give it.

—NAPOLEON

To be governed is to be, at every operation, every transaction, noted, counted, registered, taxed, stamped, measured, numbered, assessed, licensed, authorized, admonished, prevented, forbidden, reformed, corrected, punished.

—PROUDHON

Virtue has its own reward, but no sale at the box office.

—MAE WEST

Act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means but always also as an end.

—IMMANUEL KANT

At death, those heirs
That seem the saddest,
Behind their masks
May be the gladdest.

—ART BUCK

Next to doing the right thing, the most important thing is to let people *know* you are doing the right thing.

—JOHN D. ROCKEFELLER

We often shed tears that deceive ourselves after deceiving others.

—LA ROCHEFOUCAULD

After our ages-long journey from savagery to civility, let's hope we haven't bought a round-trip ticket.

—CULLEN HIGHTOWER

The first day of spring was once the time for taking the young virgins into the fields, there in dalliance to set an example in fertility for Nature to follow. Now we just set the clock an hour ahead and change the oil in the crankcase.

—E.B. WHITE

When I was growing up, our town was so poor our rainbows came in black and white.

—ROBERT D. COWAN

Men are admitted into heaven not because they have curbed or governed their passions, but because they have cultivated their understandings.

—WILLIAM BLAKE

There's a better way to do it. Find it!

—THOMAS A. EDISON

There are no grades of vanity, there are only grades of ability in concealing it.

—MARK TWAIN

Money is like a sixth sense without which you cannot make a complete use of the other five.

—SOMERSET MAUGHAM

My son has said to me that if you want to participate actively with businessmen today, keep your hair cut, stand straight and don't talk about the past.

—TYCOON CYRUS EATON (at 84)

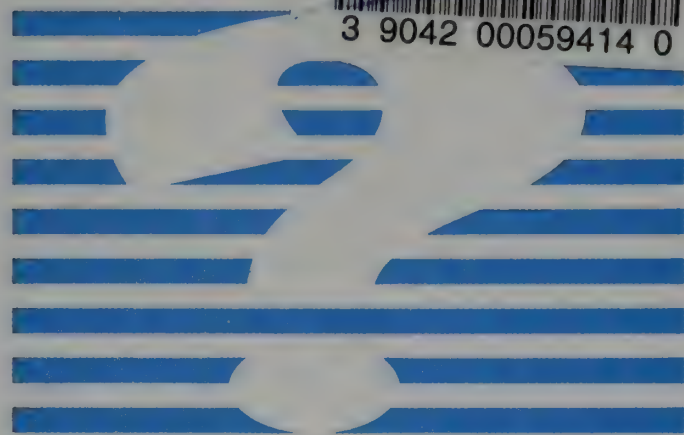
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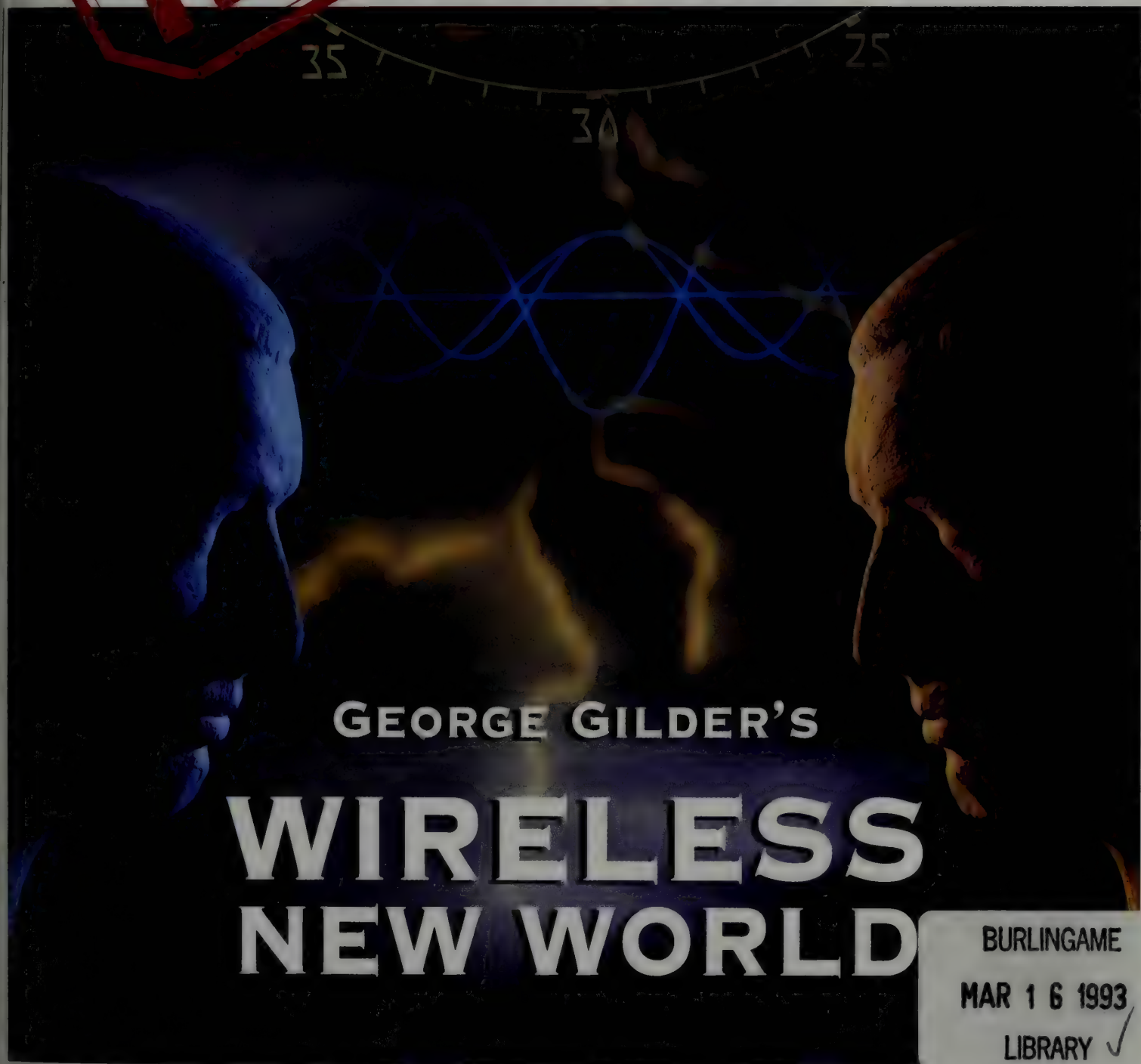
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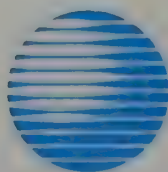
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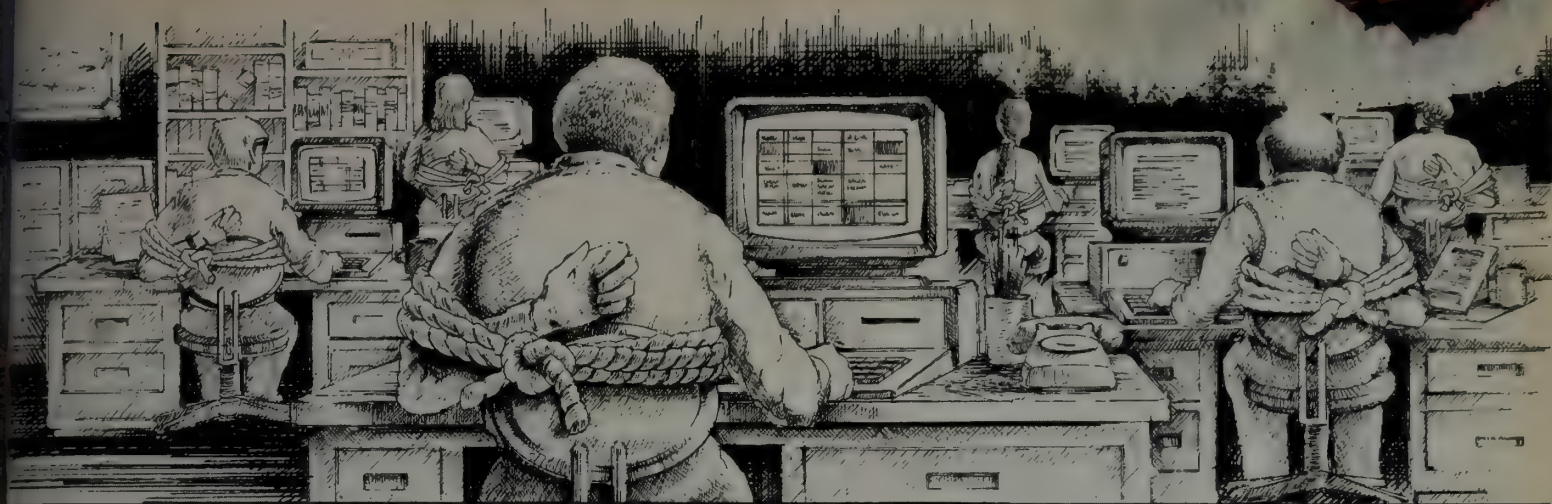
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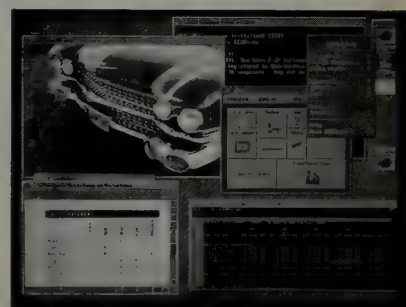
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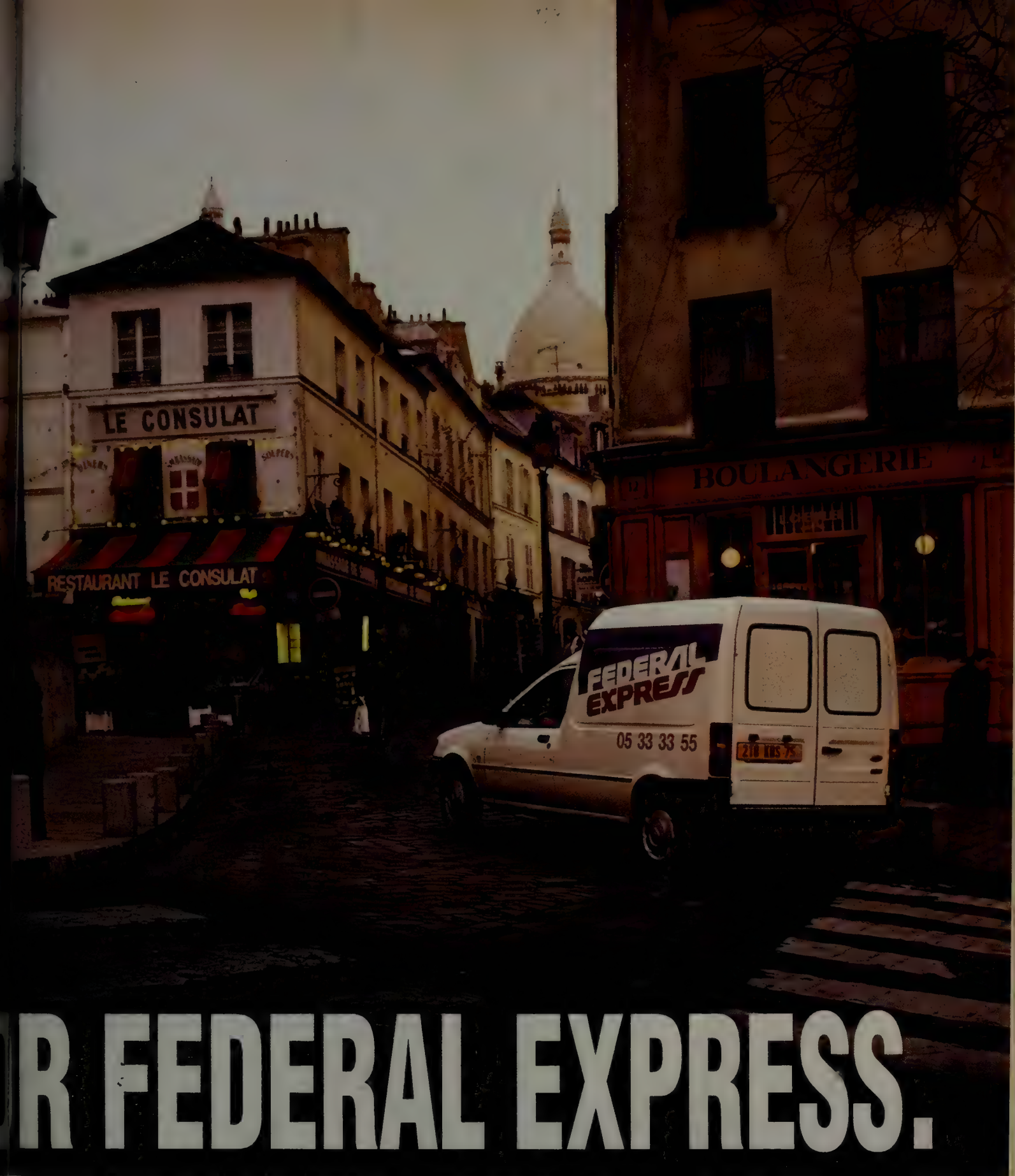
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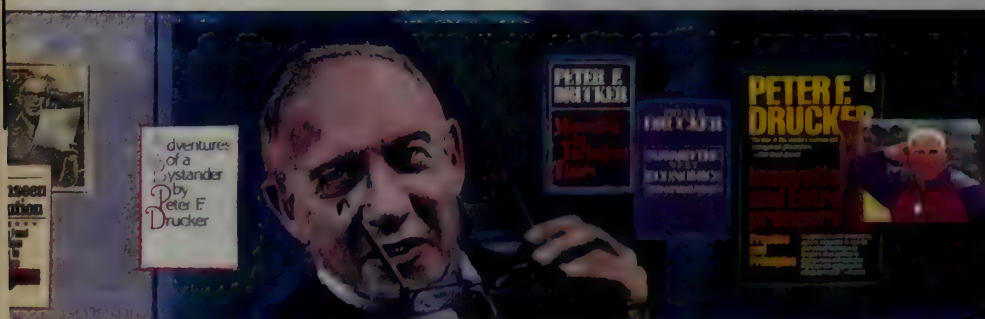


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Breaking Away: Knowing the Way to Sante Fe

With a fax and modem for a lariat and Fed Ex as a trusty sidekick, doing business out where the deer and the antelope play is no trick at all.

By Jeffrey Young

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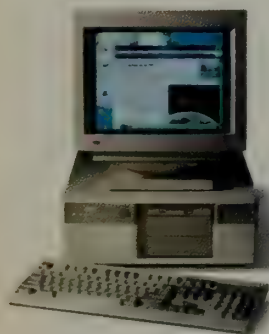
Daniel Magnussen



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Oblivious to the exploding SUPERNOVAS above, an AST engineer sits *glued* to her PC.

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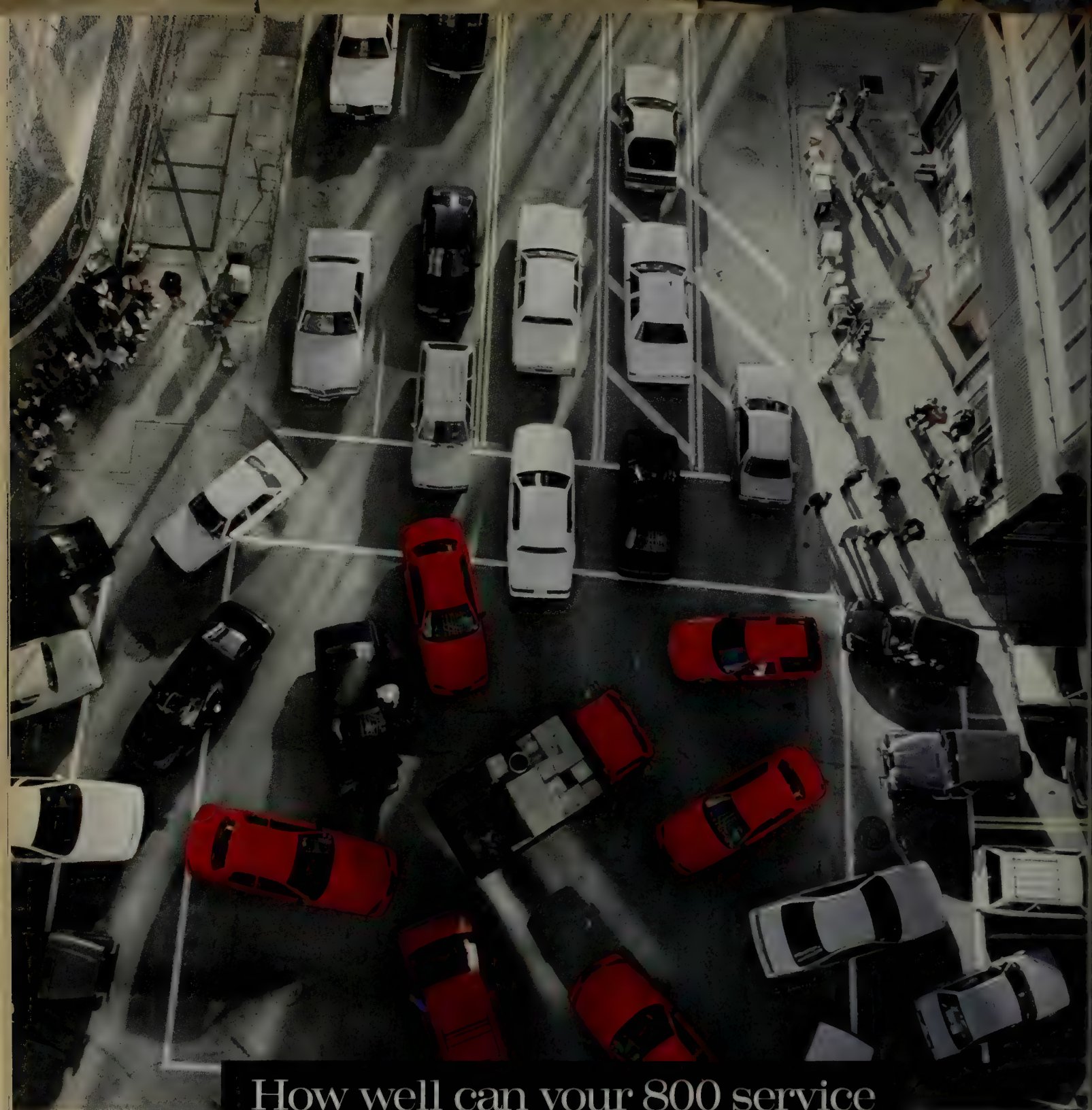
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BY RICH KARLGAARD

How to Profit From Technology

LIST THE KEY breakthroughs in information technology this century and you'd have to include: 1948—transistor, information theory; 1958—integrated circuit; 1960—communications satellite; 1971—microprocessor; 1976—SQL language; 1987—fax III protocols. Of course, you could easily expand the list to 100 or more by spending an hour in a good science library.

But let's move on. Another interesting list could track the "hit" products of the Information Age: 1951—Univac computer; 1959—Xerox 914 copier; 1977—Apple II computer; 1989—Motorola Microtac, the first subpound cellular phone. You probably owned some of these products. Without these and 500 other bright ideas, the Information Age would be lodged in the brains of fanciful theorists and science fiction novelists.

Next is a list you rarely see: 1962—Ross Perot leaves IBM to found Electronic Data Systems with a previously unheard-of mission: systems integration; 1970—Ted Turner starts Turner Broadcasting and six years later rents satellite space in order to broadcast Atlanta Braves games to Montanans; 1981—Wal-Mart implements bar code scanners and five years later begins transmitting store sales data to headquarters via satellite.

Notice the pattern? Many of America's biggest success stories began when creative entrepreneurs saw technology as but a starting point for testing new business models and building faster companies. Wow your colleagues at Bell Labs with a seminal paper, bedazzle the COMDEX cyberpunks with a cool product, and you just may change the world. But build a new and needed business

Many of America's biggest success stories began when creative entrepreneurs saw technology as but a starting point to test new business models and build faster companies. Lesson: You don't have to be a programmer to get rich.

model around technology's advancing powers, and you may become tomorrow's Sam Walton, Fred Smith, Ted Turner, Bill Gates, Michael Dell, Bill McGowan or Ross Perot.

Forbes ASAP was created to unleash your thoughts about information technology and its power to spark ideas, push forward strategies, create riches. This potential now exists everywhere for nearly everyone.

Example: **CHRIS LEINBERGER**, one of the country's preeminent land-use planners, handles clients scattered over the globe from his New Mexico ranch thanks to fax machines, computers and cellular phones. Leinberger may not become Bill Gates-rich, but he's doing just fine by us, thank you.

Example: **PIONEER HI-BRED** is a major supplier of seed corn whose products are straight from the agrarian age but whose business model is strictly 21st century.

Again and again, we discover that anyone with a lively mind and a bias for action can exploit technology for profit. Success depends on recognizing that every industry is becoming technology-driven. You don't have to be a programmer to survive. But you have to recognize what is coming and learn how smart people—maybe even your competitors—gain the advantage.

THIS ASAP supplement is full of technology-meets-enterprise change. We rather fancy how management writer **TOM PETERS**, our interview subject, describes the compounding effects of the technology-enterprise union: "The world is going bonkers. Bonkers squared tomorrow. Bonkers cubed on the way."

... As evidence of this, **GEORGE GILDER** explains what happens when obscure entrepreneurs tap new areas of the electromagnetic spectrum for wireless communications. Even recent billionaire Craig McCaw will have to read this.... Future desktop computers will have the power of a mainframe. Does that mean you should ditch the big iron now? Maybe, but as **ALICE LAPLANTE** informs us, think through your business model first.

After you read ASAP, tell us how you profit from technology. Fax me at 415-637-1987 or reach me on MCI Mail: rich.karlgaard.



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0.23	0.30	0.23	30	NORTH GOLD	0.02	0.02	0.02	0
0.04	0.04	0.04	17	NORTH QUAY	0.04	0.04	0.04	0
0.095	0.11	0.095	55	NORTHLAND	0.02	0.02	0.02	0
0.88	0.98	0.88	38	NORTHRIVER	0.12	0.12	0.12	0
0.68	0.78	0.68	38	NOVA	0.065	0.07	0.07	0
0.54	0.54	0.54	0	NOVA CORP	0.01	0.02	0.02	0
0.34	0.40	0.34	0	NOVA	0.34	0.40	0.34	0

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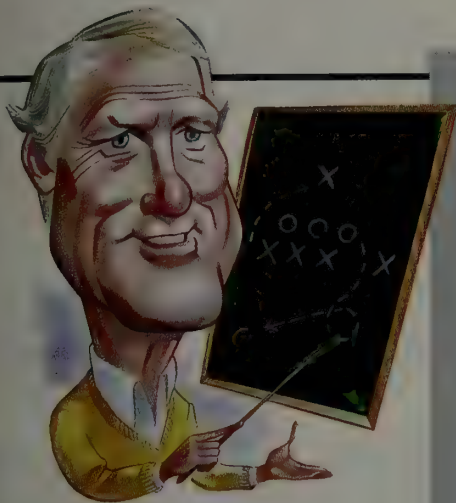
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BY BILL WALSH

When Things Go Bad



The less thinking people have to do under adverse circumstances the better. The goal of contingency planning is to remove from a tough situation the panic element of "What the hell are we going to do now?"

ONE OF THE most misguided clichés in business is the CEO's demand, "Don't tell me all the things that can go wrong; tell me how we're going to get the job done." Though this kind of determination is an admirable and necessary trait in a highly competitive world, it misses a very important point: Things do go wrong, all the time. If you don't prepare for these serious reversals of fortune, you can easily end up being overwhelmed by them.

I learned about the importance of planning for contingencies the hard way when I was the offensive coordinator for the Cincinnati Bengals some years ago. In a 1975 playoff game against the then Oakland Raiders on their field, we were down 31-28 with the ball on their 45-yard line and only three minutes left. The noise of the home fans was deafening. At the same time the phone system I used to communicate with my spotter in the press box began to malfunction.

Between the roar of the crowd, the mechanical difficulties and the excitement of the players, the situation was intense—just when, in sports or business, you want to be calm and method-

ical. And frankly, I blew it, letting the situation take over when I should have been controlling the action. We lost the game, and I decided that I would never again be confronted by circumstances I hadn't prepared for, no matter how unlikely they might seem.

IN WAR, the crucial difference between an orderly retreat and a rout may be whether a leader teaches his troops to anticipate the possibility of falling back in the face of overwhelming force—as the Marines did at the Chosin Reservoir in Korea—or preaches the dangerous illusion of invincibility, as Saddam Hussein did with his doomed Republican Guard. Planning for adversity is the key to overcoming adversity. It is the hardest kind of planning the leader of any organization faces. The paradox: You have to visualize worst-case scenarios while hoping for the best. Considerable time has to be spent preparing employees, whether

they're football players or a sales team, for bad breaks and adversity. Somehow, without allowing pessimism and negative thinking to dominate, you have to get across the message that losing the big game or the big client is always a possibility. But with the right planning and the right attitude, that loss doesn't have to be more than a temporary setback.

Bad things happen to good companies. As the leader, you may have to be dramatic to get this message across. It can't be communicated with one inspirational talk, or through a memo or an operations manual. It's done through continuous conditioning, and takes a calculated, systematic approach, because no one, not even a dedicated leader, likes to think about things going wrong. You have to orchestrate these presentations to make them a regular part of planning sessions. Contingency planning must be ongoing, not something pulled out of storage and dusted off in a crisis.

The goal of contingency planning is to remove from a tough situation the panic element of "What the hell are we going to do now?" The less thinking people have to do under adverse circumstances the better. When you're under pressure, the mind can play tricks on you. It's a terrible mistake to let outside forces influence you more than the pragmatic realities of the situation already are. For instance, if I'm on the sideline and the wind-chill factor is 10 degrees, I may decide, "Damn, it's too cold, nobody could catch a pass." So I'll depart from my plan and not call a pass, even though the players out on the field are feeling a lot warmer than I am.

Better to reduce the effect of outside variables and revert to something you've practiced and practiced. When things get tense in a football game, I want to be able to make decisions clinically, because I've thought them through beforehand, rather than take an ad-libbed, seat-of-the-pants approach. Sometimes this works, but more often than not, these kinds of reactive decisions will be wrong. Being able to go with a well-rehearsed plan is far better than depending on heroics, which work better in fiction than in real life.

Time and time again, you see people fall short or become unraveled because they're locked into what I call the hope phenomenon—"Oh, God, I *hope* this won't happen, I *hope* that won't happen." When you continually condition people for tough situations, you change their wishful or negative thinking to reality. Ideally, no situation can arise that won't have been talked about and at least theoretically dealt with.

CONTINGENCY planning takes creativity as well as constant attention. You have to be able to imagine all sorts of possibilities, and get others to imagine them too. For instance, on the hottest days of preseason training in California, I might spend part of a practice session talking to players about what it's going to be like to play in the middle of a snowstorm. I'll ask them to recollect a time when they were little kids, outside without enough clothes on. Or to visualize how hard it is to think straight when you're really cold. Maybe those conditions will never occur during the season, but if they do, no one will be surprised. We'll have talked about what it's like and rehearsed how we'll adapt.

In business, the same sort of scenarios have to be conjured up, whether or not there's much likelihood they will come to pass. How would you deal with the loss of a top salesperson? The failure of a much-heralded new product to capture the market share projected for it? A dependable client defecting to a competitor? A lot of otherwise able business leaders will look at a depressing laundry list like this and shrug it off, saying, "Aw, the odds of that happening are a hundred to one."

Yet the role of a leader is to deal with the one time in a hundred. Other-

wise, when that one time comes, people are going to slip into the instinctual survival state of mind that can breed very unfortunate decisions. Constructing such grim possibilities is a whole lot less enjoyable than calculating the size of your bonus if the year goes well. But if you're willing to plan for a wide range of small and large disasters, and reduce the potential for you and others to be caught off guard, you can actually be more aggressive, and thus more likely to avert setbacks. Having planned for the worst, you can do a lot more than hope for the best.

The contingency factor completely reversed the direction of our conflict with Japan during World War II. The air-sea battle now known as the Battle of Midway was the most important and decisive of the war. Both sides had firm strategies, but the fluidity of the action almost immediately called for contingency tactics. Because of previous overwhelming success, the Japanese had

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become extremely confident that if they planned well they couldn't fail. Thus assured, they hesitated disastrously in adapting to incoming intelligence. The Americans, forced throughout the early months of the war to adapt and strategically retreat, were much better able to change and redefine the circumstances. As the battle developed the Americans, although significantly outnumbered, seized the opportunity, while the Japanese refused to consider the possibility of miscalculation until fatally beyond implementing alternatives.

When things are going well, when a company is reaping the benefits of its own vision and excellence, the idea of failure may be unimaginable. If no one can say, "But what if...?" the tide may

turn long before anyone is aware of it. The current woes of IBM are only the latest case in point.

The key to leadership isn't so much in being decisive—even loose cannons are decisive—but in being able to acknowledge that changes in circumstance are inevitable, and in schooling yourself and others to make sure the changes do as little damage as possible.

At some point before the beginning of a season, however bullish my expectations for a team, I'll tell my players that the time is going to come when they'll take a real beating. I have to prepare them for that. A season, like a year in business, is a sustained effort; you have to account for the failure factor for falling short sometimes, and prevent it from becoming catastrophic. Last season at Stanford, we lost big to the University of Washington and missed a chance to play in the Rose Bowl. But the team was prepared for that possibility; they came back and

won the next four games against top flight opponents. By the end of the season, we had a 10-3 record, including a win against Penn State in the Blockbuster Bowl.

In sports and in business there isn't just one game, even if it's the Super Bowl. You can play the next year; you can play the next week. How we feel about the last game, even if we lost it, is going to affect how we feel about the next. When all is said and done, it's important to be able to say, "We had plans for the contingencies and we rehearsed them. We knew what to do." Teams and companies that can't say this, and instead complain bitterly about what bad luck they had, are sure to encounter more and more bad luck in the future.



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BY MICHAEL ROTHSCHILD

The Coming Productivity Surge

A FEW YEARS back, MIT economist Robert Solow quipped, "We see computers everywhere but in the productivity statistics." His remark set off a controversy, now called the "productivity paradox," that refuses to go away. Swarms of investment analysts, economists and journalists have tried to dismiss this indictment of the computer industry by arguing that the government's worker-productivity data are so flawed they can't prove anything. But even after making all the reasonable adjustments, the same bottom-line message keeps coming back. Although U.S. businesses plunked down well over \$1 trillion for computer systems in the last decade, they have almost no measurable productivity increase to show for it.

When I first heard about the computer productivity paradox, I couldn't believe there had been "no productivity growth." I can't even bear to think about how much time-wasting drudgery I'd have to go through without my Macintosh. And yet, plenty of bright people have investigated the productivity paradox for long enough to convince me that there's more to it than a statistical delusion.

Searching for a plausible explanation, I stumbled upon a brilliant but obscure research paper by Paul David, professor of economic history at Stanford University. Though economic historians often share the same floor in faculty office buildings with economic theorists, they remain a breed apart. Instead of wasting time massaging highly aggregated national income accounts data with impenetrable mathematical models, economic historians roll up their sleeves and dig out the

American businesses plunked down well over \$1 trillion for computer systems in the last decade—yet they have almost no measurable productivity increase to show for it. Are the data wrong and the Luddites right? Here is what history has to teach us.

hard facts of daily economic life. Much like paleontologists, they re-create bygone eras by patiently piecing back together the most minute details of forgotten technologies and extinct industries.

Intrigued by the flap over the productivity paradox, David decided to take a closer look at a remarkably similar historical puzzle. Ninety years before Intel invented the dynamic random-access memory chip, or DRAM, (1970) and the microprocessor (1971), Thomas Edison invented the carbon filament incandescent lamp (1879) and the central generating station (1881). Just as it took 10 years before a refined microprocessor—embodied in the original IBM PC—began changing our daily lives, it

took nearly 20 years before electricity began having any significant impact on society. Indeed, it wasn't until the Paris Exposition of 1900 that electricity was used to light an entire city.

AS THE 20th century began, business investment in electrical equipment skyrocketed. Between 1900 and 1920 the percentage of U.S. factories equipped with electric motors jumped from five percent to 55 percent. Yet, despite the obvious advantages of electric motors over steam engines, worker productivity showed almost no measurable increase.

Solving the riddle of today's computer productivity paradox is simple, once its century-old predecessor is understood. Back then, a state-of-the-art facility was a three- or four-story brick building. A coal-fired steam engine sat in the factory's basement. Its power was transmitted to the equipment on the floors above through an elaborate system of vertical and horizontal shafts

and drive belts.

Factory owners began replacing steam engines with large electric motors because the new technology slashed coal bills by 20 to 60 percent. But the power generated by these first electric motors was still conveyed to lathes, drills, grinders and punch presses by the conventional system of shafts and belts. As time passed and somewhat smaller electric motors became affordable, separate



motors were installed on each floor. This eliminated the need for the vertical shaft. However, because the motors were still relatively expensive, each one powered a group of machines via horizontal shafts and belts.

Electric motor technology was indeed revolutionary, but to pay for itself it had to be grafted onto the existing industrial infrastructure. Multistory factories made sense in the steam age because they reduced the costly friction losses incurred as horizontal shafts carried power to the equipment. Single-floor factories would have eliminated all the labor wasted moving unfinished goods from floor to floor, but overall it was cheaper to staff the elevators than to pay for the coal turned to waste heat by long horizontal shafts.

For similar reasons, machines requiring the most horsepower were placed near the base of each floor's horizontal shaft. Smaller, low-power-consuming equipment sat at the far end of the work floor. Again, though this arrangement made economic sense from a power-conservation standpoint, it made the flow of materials ridiculously inefficient. In short, since the entire industrial infrastructure had evolved around the assumption of expensive steam power, factories were designed to be grossly inefficient in other dimensions. Once made, these fundamental economic trade-offs endured for decades in bricks and motor.

It wasn't until cheap, small electric motors became available in the 1920s that factories began to abandon "group drive" power for the "unit drive" approach, the familiar present-day system in which each machine is powered by its own internal motor. As this technology was installed, companies ripped out their drive shafts and belts, rearranged their machines and smoothed their flow of materials. The most innovative "high-tech" firms—companies in fast-growing new industries such as cigarettes, organic chemicals and electrical equipment—were the first to go all the way and take the radical step of building single-story factories. They were literally the first "flattened" corporations.

Finally, 40 years after Edison's breakthroughs, productivity growth took off. Where the annual labor productivity growth had hovered around

one percent for the first two decades of the century, it jumped to more than five percent a year during the Roaring Twenties.

Real economic life, it seems, is a tad more complicated than the input-output models of economic theorists. Pumping investment into a powerful new technology does not instantly and automatically yield productivity gains. At the start of the steam engine-electric motor transition, steam-based investments still worked and were still carried on company balance sheets. To reap the full

The productivity paradox is an artifact of superficial thinking. But beneath its surface, we can foresee a productivity explosion that will soon dwarf the productivity surge that made the Roaring Twenties roar.

promise of electricity, an almost endless number of practical details had to be worked out. That took time and enormous creativity. As with today's dream of the paperless office, no one knew what a fully electrified factory would be like or how best to manage it.

LOOKING AHEAD, no one can say when all the critical elements of the Information Age infrastructure will come together. But it appears that we may be on the cusp of that long-awaited productivity surge. The explosive growth of PCs, workstations, LANs, WANs, fiber optics, wireless communications and object-oriented software may be completing the new office paradigm just as the unit drive motor completed the new factory paradigm of the 1920s. As these communications technologies link the previously isolated power of microprocessors, the cost of delivering the right information where

it is needed will collapse, allowing completely new work flows and organizational infrastructures to emerge.

We already see evidence of these revolutionary changes on the horizon. Without the arrival of networked computers, there is little to explain the massive and permanent disappearance of middle-management jobs. Like the power-transmitting drive shafts and belts made unnecessary by the arrival of unit drive motors, information-transmitting white-collar workers are being ripped out of the emerging economic infrastructure.

Hierarchical "multistory" bureaucracies are being flattened into "single-story" organizations, not because of any sudden change of heart by top management but because the hard economics of information handling are being utterly transformed. Even though in a paper-based world it made economic sense to minimize communication costs by co-locating workers in urban office towers, in the world of E-mail, faxes and teleconferencing the costs imposed by that infrastructure have become an incredible waste of money. More important, this shift has revealed that our culture of poor interpersonal communication is today's greatest barrier to productivity growth.

By simply extending already well-understood production techniques, makers of microchips and fiber optics are certain to drive the cost of compute cycles and data transmission down another thousandfold before the end of the century. As a consequence, all our sacred assumptions about the nature of organizations will be overturned. Like our predecessors in the early 1920s, we are being forced to rethink all the old trade-offs and invent new designs for our working lives.

Like most puzzles, the productivity paradox is an artifact of superficial thinking. By getting beneath its surface, by examining the computer productivity paradox in the light of economic history, we can understand our computer frustration. We can also foresee a productivity explosion that will soon dwarf the productivity surge that made the Roaring Twenties roar.

Michael Rothschild, president of the Bionomics Institute, San Francisco, is the author of Bionomics.

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BY ALICE LAPLANTE

The Big Deal About Thinking Small

Downsizing from the mighty mainframe is all the rage—but beware: Though for some companies it works wonders, for others it is a bewildering ride through the funhouse.



AN AZURE LAKE reflects the landscaped grounds and gleaming buildings of the Christian Broadcasting Network Inc., Pat Robertson's evangelical media empire based in Virginia Beach, Va. Robertson is fond of gesturing toward the rippling waters whenever he catches sight of his chief technology officer,

Paul Flanagan. "Well, Paul, what's going in?" Robertson asks. "You or the mainframe?"

This is not an idle question. By this summer Flanagan will have unplugged CBN's Hitachi mainframe workhorse, drained the cooling fluid and disconnected the special air conditioning unit that has kept the machine humming beneath the weight of the network's \$160 million broadcasting conglomerate.

Replacing the mammoth system will be a network of 600 PCs that will be used for everything from writing memos to tracking CBN's international subscriber base. In the process, CBN will reduce its annual software fees from \$450,000 to \$80,000 and cut its operations staff in half. Most important of all, CBN will never again run out of computing oomph—as it did with its Hitachi mainframe. If it needs more processing power, it can simply add PCs or servers to the network.

Good news—so far. But Flanagan is understandably nervous. As his boss Robertson realizes, the financial and organizational viability of CBN hang on the success of this project. Already, Microsoft—one of CBN's most important software suppliers—is nine months late delivering a critical piece of technology; costs are running 10 percent over budget and CBN technical workers—who know that half of their ranks will be hunting for jobs this time next year—have the jitters. So goes another real-world downsizing project.

Everyone's doing it—but should they?

Scratch the surface of the current glow surrounding downsizing and you'll expose a lot of "gotchas." Even companies that are happy with the results say it's not for the faint of heart; those who have crashed and burned aren't speaking.

"Downsizing horror stories are out there, but no one wants to talk about them," says Cheryl Currid, president of Currid & Co., a Houston-based systems integration consultant who was a vice-president at Coca-Cola Foods during its first major downsizing project in the late 1980s.

The benefits of downsizing—moving large-scale computer software systems from inflexible and expensive mainframes onto networked desktop work-

stations—have been trumpeted throughout the business community: enormous cost savings, flexibility, increased employee efficiency and, most importantly, a more congenial marriage between business and technical interests within corporations. But there are significant risks as well. For one, the touted cost savings are highly misleading. Virtually every company that has been through a major technical reengineering or downsizing effort says the mission ended up being more expensive than anticipated—usually between 30 and 200 percent more.

"By and large, the purported cost savings are those associated with the fact that you get a lower cost per MIPS [millions of instructions per second, the standard measure of computer power] on desktop systems," says Dr. Jerrold Grochow, vice-president and chief technology officer at American Management Systems Inc., an Arlington, Va.-based software-development firm. "But using that argument to anticipate that your overall costs will be significantly lower is incredibly fallacious."

Then there are the operational concerns. Over the years, most corporations have learned to put safety nets in place to ensure that if their mainframes are hit by catastrophe—fire, earthquake, tornado or other destructive act of God or human—critical business operations will not be affected. Decades of experience have made most corporations confident that if their main data center is destroyed or impaired, they won't have to close their doors. However, distributed systems provide them with no such assurance.

"This is not a trivial problem," says Ray Perry, CIO for Avon Products Inc., the \$3.59 billion cosmetics firm. He recalls the day a sprinkler head broke in the company's New York City headquarters, leaking gallons of water over dozens of desktop computers on an entire floor of operations. The department happened to be almost completely dependent on its networked PCs: Critical data were stored on individual machines as well as on departmental file servers. "Fortunately, we had thought to back up those data," says Perry. "If we hadn't, we would have been in real trouble."

The strict hierarchical bureaucracies

most organizations also hinder companies' ability to adapt to the rapidly changing technology of the downsized world. Ron Peri, chief technical officer for The Ultimate Corp., a firm that helps downsized corporations support downsized operations, calls this "analysis paralysis." "Typically, decisionmaking cycles in corporations take six months to a year," he says. "Yet the product lives of most desktop hardware and software products are less than six months." By the time a purchasing decision has been made, a new generation of products has appeared on the market, and the decisionmaking process needs to start all over again.

To complicate matters, many vendors have turned out to be notoriously inept at predicting when their products will be available. "Companies like Microsoft tell you which month to expect their software," says consultant Currid. "They just don't get the year right. IS professionals unfamiliar with the players in the PC world might not understand how unreliable these so-called delivery dates are."

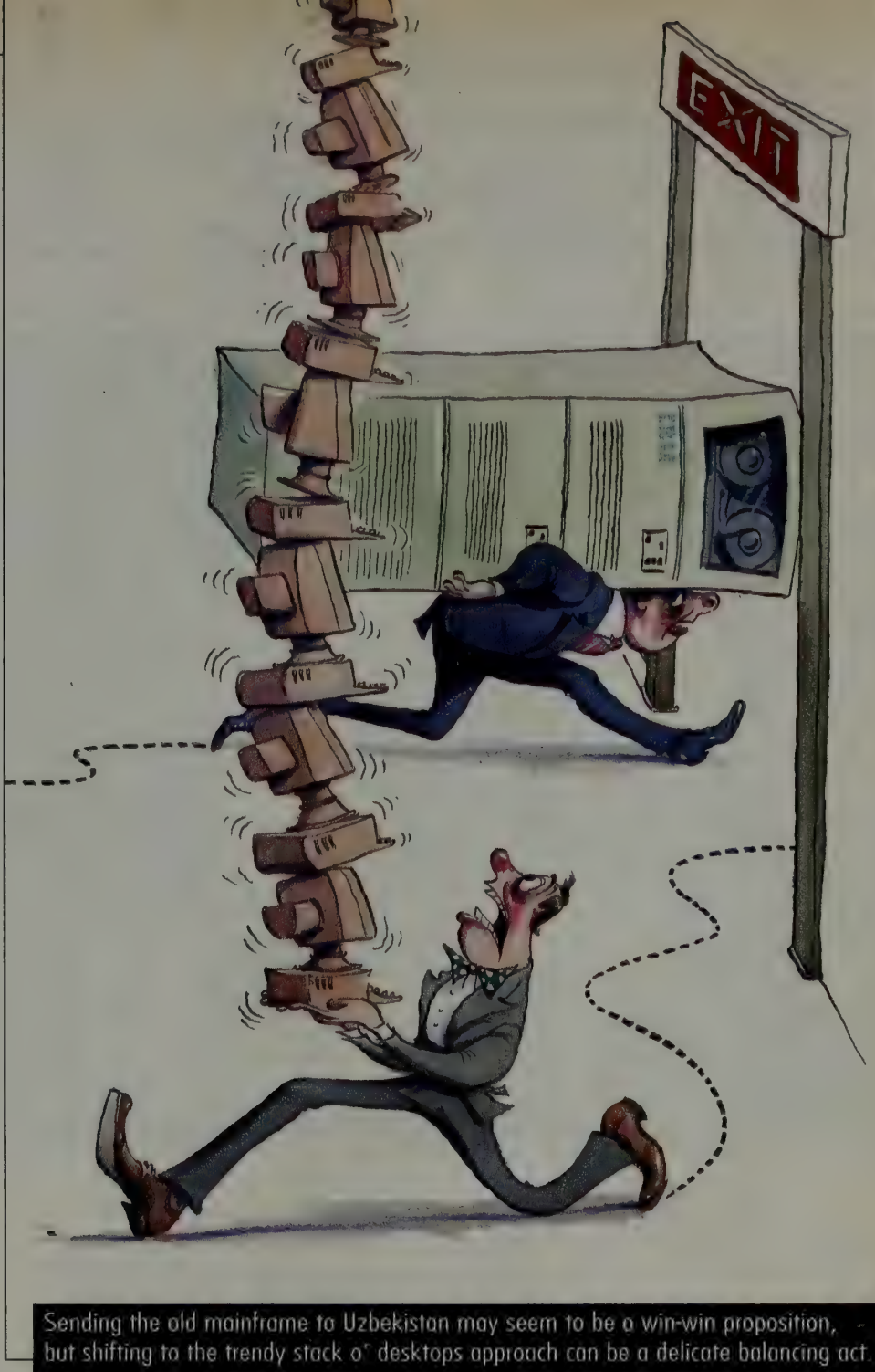
Despite all this, downsizing pioneers say the long-term results are encouraging—just be prepared.

"You need to be able to fail," says Ray Caron, president of Cigna Systems. Caron piloted insurer Cigna Corp.'s first reengineering project in 1987 with so much success that he was directed to duplicate his efforts throughout the company. Caron says that if he had reported a 100-percent success rate to Cigna CEO Bill Taylor, Taylor wouldn't have believed him. Nor should he have, says Caron. "Taylor understands how things work. He knows what the world is about." Not all CIOs, however, are fortunate enough to work for CEOs with this attitude. Caron admits that he doesn't know how he would have gotten through the process without this top-level support. "Believe me, this is not for the faint of heart," he says.

Texas Instruments

Downsizing pays—once the infrastructure is in place

After listening to Ralph Szygenda talk about downsizing, you'll think twice about beginning a major project. And Szygenda is one of distributed computing's most fervent enthusiasts.



Sending the old mainframe to Uzbekistan may seem to be a win-win proposition, but shifting to the trendy stack o' desktops approach can be a delicate balancing act.

As vice-president and manager of Texas Instruments' Information Systems and Services division, based in Dallas, Szygenda and TI first looked to downsize internal computer operations in the mid-1980s. At that time, TI had 37 computer centers scattered around the globe. Each was equipped with IBM mainframe computers, large-scale software that had to be licensed separately for each site and hordes of support staff. These data centers supplied computing power to TI's various business units. TI management thought it could save money by consolidating large-scale systems operations in a handful of sites and putting more power into smaller, distrib-

uted systems that would reside in individual departments. Today there are four data centers; in 1994 there will be just one. The company expects to save \$23 million annually from this consolidation, Szygenda says. However, this figure is slightly misleading: Before it approaches an amount anywhere near this, TI will have had to pump tens of millions of dollars into building a distributed computing support structure that—after nearly a decade of planning and development—is still not yet mature, says Szygenda.

"It was clear that we needed to move to a distributed architecture," he says. "What wasn't clear was how long, and

how costly, the process would be."

But TI is not sorry to have embarked upon this course, and Szygenda is proud of his record of success. Today TI's global information network includes 17 IBM or IBM-compatible mainframes, nearly 50,000 PCs and 3,900 midrange or minicomputers. More than 62,000 employees at 344 sites around the world rely on this distributed network for everything from marketing and sales support to manufacturing operations.

Szygenda estimates that after the initial infrastructure investment, companies can expect the computing costs of downsized applications to be one-half to two-thirds of what they once were. For example, TI expects to save \$30 million annually when its client/server infrastructure is complete, he says. While these are not insignificant figures, Szygenda says that companies shouldn't expect to see this kind of cost reduction until five years or more after they've initiated their downsizing efforts.

Burlington Coat Factory

When the downsizing transition hurts the core business

Burlington Coat Factory Warehouse Corp. has learned its downsizing lessons the hard way. Headquartered in its namesake town in New Jersey, Burlington is at the end of a major downsizing project: IS manager Michael Prince finally bid a fond farewell to his mainframe in January. He anticipates that by moving to a distributed Unix network rather than up to the proprietary IBM mainframe required to accommodate Burlington's growth, his firm will save at least \$3 million annually. This is music to the ears of Burlington's board of directors.

But these savings will have been achieved at some pain.

Prince will be the first to admit that the downsizing project—originally scheduled to take two years and now entering its fourth—had its drawbacks. Constrained by a skeletal technical staff, Prince was forced to "freeze" Burlington's Bull mainframe-based merchandising database—the all-important source of information about who's buying what, and where—to put full employee effort into developing a new Oracle relational merchandising database that would run on powerful Unix machines from Sequent Computer Sys-

tems. "We ended up impacting the business negatively during a period of tremendous growth," admits Prince. "And we lost an awful lot of credibility with key Burlington merchandising managers—who run this company—as a result." Despite this, Burlington performed well in 1992: Sales increased 10.8 percent, profits increased 26.8 percent and 11 new stores were opened, bringing the total to 169 locations in 39 states.

But the company could have done even better, Prince admits. Still, he's optimistic that with the flexible and cost-efficient downsized architecture in place, Burlington is poised to reap the advantages of downsizing.

Cigna Insurance

Downsizing is not for the faint of heart

Don't try to glorify downsizing to either Ray Caron or Francine Newman. They are all too familiar with the agencies that can accompany even the most successful project.

Caron and Newman are at the forefront of a massive reengineering effort that is transforming the giant insurer from a sluggish, high-overhead operation into one that can compete in a world in which hurricanes, riots, firestorms and earthquakes are causing insurance payouts to skyrocket. Caron, president of Cigna Systems, and Newman, president of Cigna RE, one of the company's reinsurance arms, agree that the effort takes an iron will. They won an award for their efforts—the 1992 Partners in Leadership Award from the Society for Information Management—and cut Cigna RE's 1991 costs by 25 to 30 percent. Still, their project nearly failed before it got off the ground.

An initial poor choice of consultant was nearly fatal. Then, bickering between Caron's technical staff and Newman's business employees almost dealt the death blow to their downsizing partnership. But they persisted. The consulting firm was fired; the original head of the project team was replaced, and over the next 18 months a success story began to take shape—slowly.

"We had a number of false starts," Caron admits. "A number of people within management and on the project team simply weren't up to the job. We replaced them and went on."

Ian Drewette, vice-president of

Cigna Systems, took over six months into the project and had to deal with sagging morale, escalating costs and immature technology. The company had already decided to use IBM's OS/2 operating system for the LAN-based applications, and Drewette was forced to work with a buggy and largely undocumented prerelease version of the software. Cost overruns were rampant: The \$3 million project went more than 30 percent over budget before completion. "But we actually got a return on our investment much more quickly than we had anticipated," Drewette says, adding that development costs were recovered within two years.

The company's dependence on its second consulting firm became one of its unanticipated costs. Cigna seriously underestimated the length of time it would take to wean itself from Symmetrix, a Lexington, Mass.-based consultancy that helped guide the insurer through the downsizing maze. "We thought it would take us about eight months to reduce our dependency on Symmetrix, but the transition easily took double that time," says Drewette.

Cigna was going for more than just smaller and less expensive systems. Reengineering meant radically changing the way the insurer did everything from answering customer service calls to writing new policies. "Most people ask me about the dollars and cents we saved," says Newman. "That was important, but more critical was that we changed the way the organization functioned." Newman's division is now managed by employee teams. The decisionmaking hierarchy was flattened, and many jobs were either eliminated or completely redefined.

Downsizing eventually pays off, says Caron. "But it's incredibly hard work and not always successful. You must be prepared to be persistent and give it your undivided attention."

McGaw Inc.

CIO Jan Prokop embarks on a third downsizing effort—with caution

As a 20-year systems-management veteran, Jan Prokop has earned a reputation for rescuing companies that have fallen prey to computing myths. Today, although the prevailing business winds are blowing CEOs toward downsizing, touting tremendous cost savings and—

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Cigna Insurance survived downsizing, but only after false starts caused in-house bickering, sagging morale, escalating costs, casualties and overheated software.

machine, as well as laid off the system staff that had formerly looked after that database. The company lost \$5 million, and "that's just what they could count," says Prokop. "This brought the company to its knees."

Prokop's first move was to jettison the existing project. Using Unix workstations from Sun Microsystems, he built an Ingres database running over an Ethernet network and slowly brought the company's operations back up. He found the lesson extraordinarily useful—not least because the debacle never became public. Although news of the original downsizing contract had been trumpeted throughout the computer industry—assuming a place in the growing downsizing folklore—both the vendor and the client company kept mum about the tale's unhappy ending.

Prokop's second downsizing assignment was at Telogy, Inc., Redwood City, Calif., where he moved the company from a Hewlett Packard 3000 minicomputer onto a Novell local area network.

Since September 1992, Prokop's task has been to provide Irvine, Calif.-based McGaw with a computer system that can support the fierce price slashing and dog-eat-dog competition of today's health care products and services market. "My mission here is to make the hurt go away," he says. And it's going to take more than just a Band-Aid.

In a newly created position that reports to the COO, Prokop has budgeted \$6 million and scheduled three years of backbreaking technical design, programming and engineering activities in order to put critical data into the hands of McGaw employees. This will mean reducing the company's dependence on its existing IBM 3081 mainframe, which houses 300 databases, none of which talk to each other. Prokop intends eventually to replace the mainframe with interlocking databases that will reside fluidly on a web of networked PCs, the traditional downsizing architecture being heralded in executive suites from coast to coast. But ask Prokop about his expectations, and he will speak cautiously, taking special care to temper the hopes of his boss, McGaw COO John Schaefer.

"I've made it clear—hopefully—that we aren't going to save millions of dol-

those already-tired '90s buzzwords—information-empowered employees, Prokop warns companies to watch their backs. Now vice-president and CIO of McGaw Inc., Prokop is guiding his third corporation through a major downsizing effort.

"It's definitely worth it, or I wouldn't have taken on this project," says Prokop. "But a lot can go wrong."

He knows whereof he speaks. Five years ago, Prokop was brought in to salvage the operations of a Northern California-based manufacturer of window coverings. Originally hired to take over a faltering systems downsizing project, Prokop ended up pulling the firm back from the brink of financial disaster. "The CEO was so fascinated with the Holy Grail of downsizing that he forgot to be skeptical of the vendor's sales pitch," says Prokop.

What went wrong? Everything. A prominent hardware vendor anxious to

push its latest machine painted a glorious scenario of the millions of dollars the company could save by scrapping its IBM mainframe and moving to a distributed Oracle relational database. The vendor had been hired to provide not only the hardware but also the consulting services that would supposedly get the new applications up and running within 90 days. But the vendor had no experience in that software environment. "It turned out that no one on the vendor team had actually used Oracle, much less attempted to operate it on the hardware sold to the company," says Prokop, who was called in when the project began to totter.

The system went up in smoke but not before taking the entire accounts receivables database—the lifeblood of the company—with it. Dazzled by the vendor's promises, the company had already transferred all of its critical financial and customer files to the new

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custodian \küs-tō-dē-ən\ *n* [ME *custodie*, fr. L *custodia* guard-
 ing, fr. *custus*, *custos* guardian] : immediate charge and control
 exercised by a person or an authority (as over a ward or a suspect)
custom \küs-təm\ *n* [ME *custume*, fr. OF, fr. L *consuetudin-*
consuetudo, fr. *consuevi* pp. of *consuevere* to accustom, fr. *com-*
mutari to accustom; akin to *mutis* one's own—more at **SUICIDE**]
 1 *a* : a usage or practice common to many or to a particular place
 or class or habitual with an individual *b* : long-established prac-
 tice considered as unwritten law *c* : repeated practice *d* : the
 whole body of usages, practices, or conventions that regulate social
 life *e* *pl* *a* : duties, tolls, or imposts imposed by the sovereign
 law of a country on imports or exports *b* *usu sing in const* : the
 agency, establishment, or procedure for collecting such customs *3*
a : business patronage *b* : usu. habitual patrons : **CUSTOMERS**
syn see HABIT
custom *adj* 1 : made or performed according to personal order
 2 : specializing in custom work or operation <*a ~ tailor*>
cus-tom-er-y \küs-tə-mər-ē\ *adj* 1 : based on or established by
 custom 2 : commonly practiced, used, or observed *syn see*
USUAL *and occasional—cus-tom-er-i-ly* \küs-tə-mər-ē-lē\ *adv*—
cus-tom-er-i-ness \küs-tə-mər-ē-nəs\ *n*
cus-tom-built \küs-təm-bilt\ *adj* : built to individual specifica-
 tions
cus-tom-er \küs-tə-mər\ *n* [ME *customer*, fr. *custume*] 1 *a* : one
 that purchases usu. systematically or frequently a commodity or
 service *b* : one that

cus-tom-er-ize \kūs'-tə-mə-rīzē\ *vt* 1: to make a com-
 pany more responsive to its customers and better able
 to attract new ones 2: to customerize an organization's
 information strategy, e.g., to extend systems capabilities
 to field locations and other points of customer contact
 and support 3: what Unisys Corporation does for a
 growing roster of companies, and government agencies,
 worldwide *syn see* **CUSTOMER SERVICE**, **COMPETITIVE**
EDGE, **BUSINESS-CRITICAL SOLUTIONS**, **REVENUE GENERATION**

cus-tom-made \küs-təm-(m)ād\ *adj* : made to individual speci-
 fications
cus-tom-tail-ior \-tā-lar\ *vt* : to alter, plan, or build according to
 individual specifications or needs
cut \kət\ *vb* **cut**; **cut-ting** [ME *cullen*] *vt* 1 *a* : to penetrate
 with or as if with an edged instrument *b* : to hurt the feelings of
c : to strike sharply with a cutting effect *d* : to strike (a ball) with
 a glancing blow that imparts a reverse spin *e* : to experience the
 growth of (a tooth) through the gum 2 *a* : **TRIM**, **PAR** <— one's
 nails> *b* : to shorten by omissions *c* : **DISSOLVE**, **DILUTE**, **ABUTTER-**
ATE *d* : to reduce in amount <—costs> 3 *a* : **MOW**, **REAP** <—grass>
b (1) : to divide into parts with an edged tool <—bread> (2)
 : **FELL**, **HEW** <—timber> *c* : to separate from an organization : **DETACH**
d : to change the direction of sharply *e* : to go or turn
 around or about 4 *a* : to divide into segments *b* : **CUT**
CROSS *c* : **BREAK**, **INTERRUPT** <—our supply line> *d* : to
 divide (a deck of cards) into two portions (2) : to draw
 from the deck *e* : to divide into shares : **SPLIT** *f* : to
 <—the nonsense> *b* : to refuse to recognize (as a person)
 : **OSTRACIZE** *c* : to absent oneself from (as a class)
 (motor) by opening a switch *d* : to terminate the
 (motor) *e* : to make by or as if

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lars. I've told him not to listen to the hype," says Prokop, who expects McGaw to break even in systems costs after the initial investment in hardware, software and development hours.

American Management Systems

Double the money and still counting

Dr. Jerrold Grochow's disbelief in the cost savings promised by downsizing proponents sounds like heresy to those familiar with downsizing literature. But experienced companies say Grochow is right on the money.

American Management Systems' vice-president and chief technology officer is a frequent speaker on the subject of downsizing, and as that topic has grown in importance, so too has Grochow's demand on the conference circuit. At a talk he gave on the hidden costs of downsizing at a Boston University-sponsored conference, one attendee complained that he didn't come to a downsizing conference in order to be discouraged. But, says Grochow, "it's no bed of roses."

He believes that most corporations grossly underestimate the total costs of downsizing. While stressing that there are substantial long-term benefits to be gained, he adds that it's important for companies to remember that they are just that: *long-term*.

Grochow can back up this statement with personal experience. AMS is currently downsizing one of its flagship products—a financial reporting system used by a number of multinational banks—from an IBM MVS mainframe Unix solution to an OS/2 LAN-based package. AMS originally anticipated that the project would cost less than \$1 million. "But it's easily double that already, and we're not finished," Grochow says.

The main culprit behind the increased expense is the lack of commercially available products to support the new system once it is installed at AMS customer sites. Within the context of computer software, "support" spans a broad range of activities from backing up, or replicating, critical data in case of system failure to putting in place security measures that will prevent unauthorized personnel from accessing—and altering—sensitive information to helping employees who have questions or problems with the

complex hardware and software that now sit on their desktops.

In the past, most corporate software users had terminals with no resident intelligence, or processing power. Any problems could generally be diagnosed and fixed from the master controls of a central computer room. But so-called intelligent workstations have changed all that. As computing power becomes distributed throughout a corporation, often in dozens if not hundreds of buildings, cities and even countries, diagnos-

Lockheed

Prepare to expand the scope of your project

"Expect to find more things to fix than you originally anticipated and for the scope of your project to broaden," advises Steve Swenson, manager of computing services at Lockheed Missile & Space Co.'s R&D division in Palo Alto, Calif.

A directive came from the division's general manager to reduce the materials-procurement time for rapid-turnaround



A broken sprinkler system in the New York headquarters of Avon Products soaked an entire floor and almost sent a vital desktop network to Davy Jones' locker.

ing problems—much less fixing them—becomes problematic, labor-intensive and prohibitively expensive. Corporations that cheered the idea of putting so much cheap power into their employees' hands are now discovering the high cost of keeping that power there.

"We've had 25 years of experience in supporting mainframe systems," says Grochow. "We've had exactly two years of experience with downsized systems. It shows. We're learning as we go."

experiments. The total procurement cycle—from filling out the first form to placing an order for the product—took 15 working days. "We were told to reduce that to two days," he says.

But that was only the start. The project mushroomed as Swenson began digging into the problem. Although the mainframe-based procurement tracking program was somewhat inefficient, he found that "30 percent of all purchase requisitions were bounced back due to

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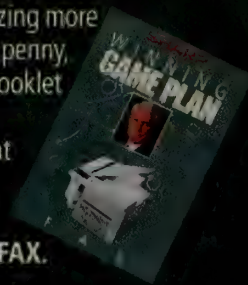
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human error." Missing information, erroneous codes and other things that could have been caught in an early "sanity check" were not discovered until late in the purchasing cycle, Swenson says.

With the aid of an artificial intelligence-based tool called Nexpert from Neuron Data, an expert system was designed that runs in a client/server configuration from a DEC VAX host and is delivered to 800 networked PCs and Macintosh computers. The procurement cycle has been whittled down to 3.5 days. Swenson still expects to hit the 2-day goal by the end of the project.

But it has taken longer—and cost more—than anyone anticipated. The application was originally scheduled to be completed in 15 months and cost \$175,000. Two years and \$350,000 later, the system is still being refined. "But we've solved a lot more business process issues than we anticipated when we began," Swenson says.

Rockwell International

Looks are deceiving

One of the chief dangers of reengineering is that the machines used in downsized operations don't look as powerful as they are. Thus, companies sometimes treat them in a cavalier fashion. "It's essential not to be misled by this," warns Fred Denton, director of information systems at Rockwell International's digital communications division in Newport Beach, Calif. Denton is happy with a downsizing project he completed last year but admits there were a number of surprises.

When he began the project, the mid-sized Prime computer that ran all of the purchasing, receiving and manufacturing applications for the site had "run out of gas." Employees found themselves staring at their screens, waiting minutes for the centralized computer to process even the most simple request.

Denton had two options. He could move the division's applications to a more powerful Prime computer or downsize them onto a network of smaller systems. The Prime replacement would cost \$500,000, while a solution using IBM Unix workstations would cost \$200,000. The choice seemed obvious. Not so obvious were the enormous performance benefits to be reaped from moving to the desktop machines, says Denton, who was

"blown away" when he measured the power of the IBM RS/6000 machine against the Prime solution.

"We realized we were going to get 10 to 100 times better performance, depending on the application," Denton says. But it still took some major mental readjustments to get used to having this kind of power on the desktop, he notes. The RISC PC look-alikes support 18 major applications and 400 users stretched out from California to Texas to Mexico.

Along with the performance boost came high support costs—much higher than Rockwell had anticipated. "We didn't realize at first how many people we were going to need to support this itty-bitty box," says Denton. To provide round-the-clock, 365-day-a-year support for a machine the size of a small filing cabinet, four operators are needed: a full-time systems programmer and three dedicated applications programmers. "We needed just as many support personnel as we did with

Downsizing Up the Career Ladder

In downsizing's infancy, companies faced resistance from information systems staffs that found the new technology so daunting and threatening that they were abandoning ship faster than they could be trained. Now the problem has reversed itself: Downsizing skills are in such high demand—and subsequently command such high salaries—that once employees have accumulated a modicum of downsizing experience, they are urgently courted by competing firms.

Cigna Corp.'s Ian Drewette, vice-president of Cigna Systems, says that only one in 13 IS workers made it through Cigna RE's initial downsizing project. "Most people couldn't make the transition," he says. Those who did, however, are difficult to retain. In 1992, Cigna lost a number of its most valuable IS workers to competing insurance companies just beginning the downsizing process. These companies wanted experienced hands on deck. As a result, Cigna had to enhance the job classification of technical workers two notches, and increase salaries proportionally.

Cheryl Currid, president of consulting firm Currid & Co., remembers being called by a *Fortune* 500 CFO who had read an article about downsizing in an airline magazine. He didn't understand why a pilot test of a small database running on a PC network—designed and built upon his orders—had failed miserably; he called Currid in to take a look. "It was clearly a case of sabotage," says Currid. "The IS staff didn't want to deal with the new technology." In effect, the programmers had rigged the test so that information was stored in a highly fragmented way; searching for the answer to routine queries took four times longer than it should have. "When I saw what they had done, I just shook my head," she says. That team was subsequently fired, and the CFO continued taking his company down reengineering's inexorable path.

When word came down the pipeline at Motorola Inc.'s \$3 billion General Systems Sector that the mainframe would soon be history, a number of IS workers quit rather than face a working environment without big iron. And many of the remaining workers grumbled, says William Connor, vice-president of information technology for the division. Now, however, GSS has a handful of frustrated people stuck maintaining the mainframe. "They can't wait to get off that job," says Connor. "Everyone sees the writing on the wall. They know where future jobs are going to be."

Companies that have experienced the painful process of reducing staff say that being candid about the possibility of layoffs is essential. Paul Flanagan, CIO of the Christian Broadcasting Network, in Virginia Beach, Va., called a meeting to tell his operations staff that half of them would be without jobs at the end of the downsizing project. To ease the pain, Flanagan decided to train *all* technical workers in the new technologies so that "even the employees we have to let go will be more marketable."



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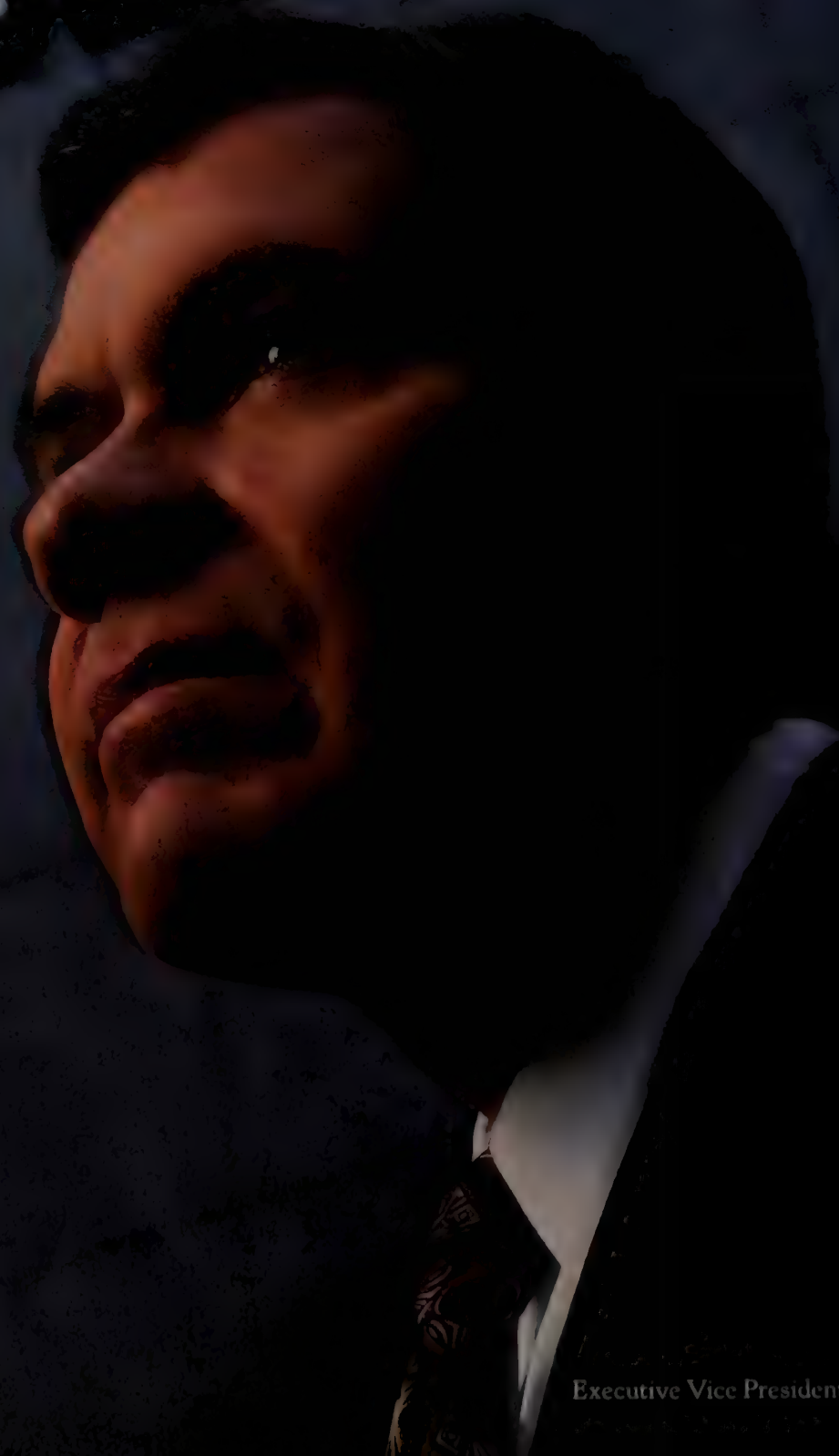


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our minicomputer," says Denton.

Bank of America

Shy of consultants

While San Francisco-based Bank of America has performed a number of "peripheral" downsizing projects, it has yet to move a major business system from a mainframe down to a network, says Mark Bowler, vice-president of applied technology for Concord, Calif.-based BankAmerica' Systems Engineering Group. He doesn't believe the technology is "really going to be there for at least 18 months."

However, this doesn't mean BofA has been inactive on the downsizing front: During the past six years it has been putting a distributed infrastructure in place to facilitate the transition to PC computing when the technology is ready.

The company has learned several valuable lessons along the way, chief among them that "every pilot project we've done has taken significantly longer than we expected," says Bowler. "The learning curve is steep."

Currently, all BofA branches use networked PCs. An OS/2 LAN connects 25,000 desktop systems throughout the country. "We've gotten to the point, after much trial and error, where we can keep the network up 24 hours a day," says Bowler. "But it's taken us five years."

Bowler also warns corporations eyeing the downsizing path to be wary of consultants claiming expertise they probably don't have. "They don't know any more than you do," says Bowler. "You end up paying to train them."

MCA

Plan for lots of handholding and cuddling

Companies must also be careful not to forget their nontechnical employees in the throes of reengineering. A downsized computer environment can radically change their working lives as well.

MCA Inc., the \$4 billion entertainment conglomerate headquartered in Universal City, Calif., is happy with its downsizing effort, having successfully moved a human resource application from an IBM 3090 mainframe to a PC LAN, which operates at approximately 10 percent the cost of the IBM host system, according to George A. Brenner, director of corporate information ser-

vices for MCA.

But even here, there has been a downside. "Our users need a lot more handholding and cuddling," Brenner says. "We've had to put a lot of effort into employee training in order to teach people to be more attentive to the power on their desktops."

Indeed, when Brenner became aware of networked computing's growing

don't advise letting your users go off on their own," he says.

Motorola

Ignoring PCs

Motorola Inc.'s \$3 billion General Systems Sector took an aggressive stance on downsizing and has been astonishingly successful, reducing technology costs by \$40 million annually



Downsizers promised American Management Systems miraculous savings, but the cost of moving just one reporting system to PCs was double a \$1 million estimate.

importance at MCA, he created a special network services group to keep the network up and running. Brenner learned that without such a group, panic and mayhem will set in among employees when the network goes down and finger-pointing inevitably follows.

Brenner has also had to limit the freedom of MCA employees. Previously, different departments were allowed to buy the hardware and software of their choice; now things are more tightly controlled. "When you have such diverse groups as we do—ranging from recording studios to film production, television, merchandising and administrative activities—this is difficult, but I

(from 3 percent of sales to just 1.2 percent), according to William Connor, vice-president of information technology for the Arlington Heights, Ill.-based GSS. And he hopes to reduce those costs even further—to one percent of sales. Most astonishing of all, Motorola accomplished this downsizing feat without buying a single PC.

Until three years ago, GSS was a traditional IBM mainframe shop—with a rigid and expensive computing architecture to match. Then the newly appointed president of the sector, Ed Staiano, in the face of increasing overseas competition and rapidly dropping prices, made an executive decision to downsize all

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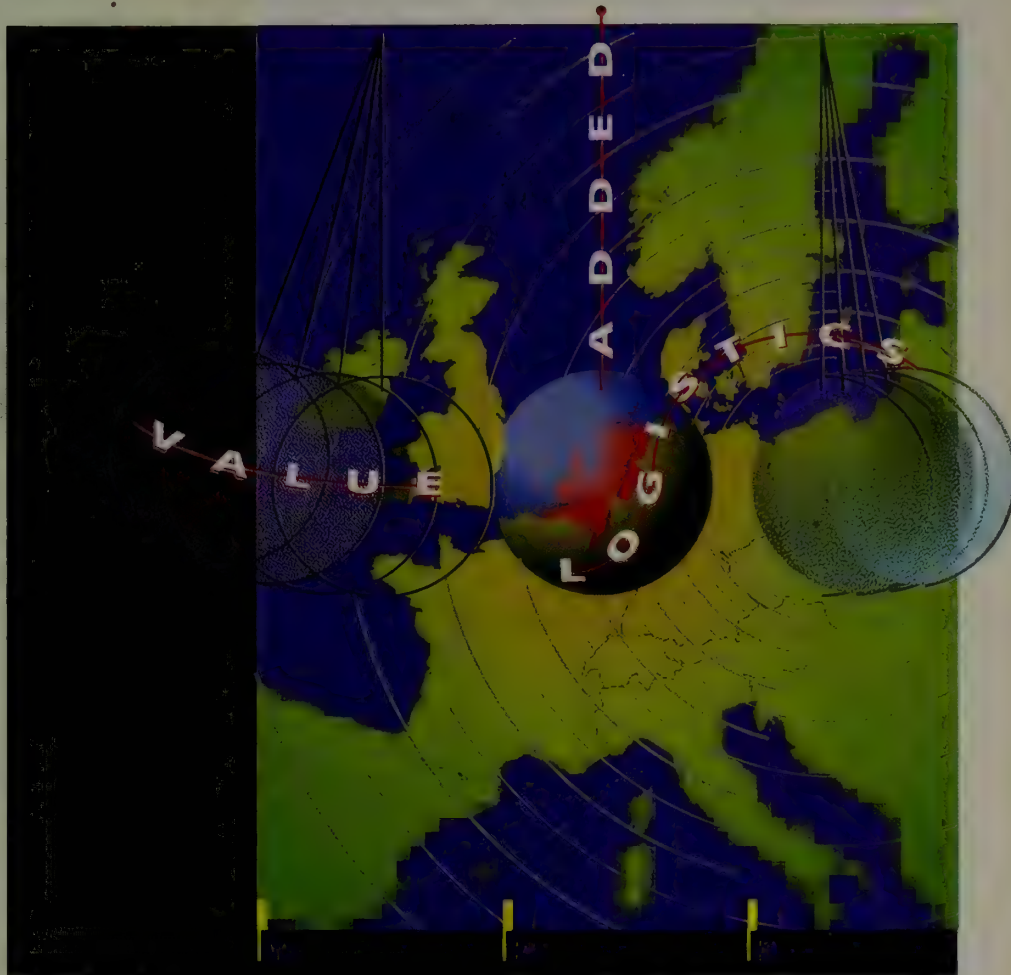
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systems. A former IS manager himself, Staiano instructed his staff not to take half-measures: Ditch the mainframe, he said, and do so as quickly as possible.

Connor says that deciding not to use PCs was critical to the success of the project. Instead, GSS put Unix-based X-terminals on users' desks. These machines can be more easily controlled from a centralized location, and because much of their intelligence resides on a server (rather than on a desktop machine), the hardware does not become obsolete as rapidly as micro-computer technology, Connor says.

Peter Schay, vice-president and service director of Client/Server Logical View at the Stamford, Conn.-based Gartner Group, says that his firm's cost studies show that companies should not make any assumptions when downsizing. Unix solutions, previously used mainly by the academic and scientific communities, are worth investigating for commercial enterprises.

The commonly held view that client/server architectures require PCs is a myth, according to Schay. In fact, his numbers (which do not include support costs) indicate that a 75-user configuration of networked PCs requires an initial investment of \$337,000 for the hardware alone, while a similar Unix-based solution needs just \$232,000 to start. "Only in situations where a high density of underutilized PCs is already in place does a PC-based solution make economic sense," he says.

UPS

Long live the mainframe

United Parcel Service sniffs at the notion that mainframes will become obsolete. "That's a myth," says Marc Dodge, network manager for the \$15 billion company. "That's not the real world. You can try to decentralize this stuff as much as possible, but in many cases the amount of data is still so large that it needs a larger system."

Atlanta-based UPS has spent more than \$2 billion on systems since 1985, increasing its technical staff from 90 employees to the current count of 3,000. In addition to six mainframes, UPS now has more than 42,000 PCs, 800 LANs and 69,000 handheld computers for package tracking and delivery in 1,746 offices and 46 countries around the globe. UPS uses its PCs for a variety of applications,

including data entry, operations control and inventory management. Its LAN-based international shipments-processing system won a coveted Smithsonian technology award in 1991.

"We knew we were falling behind other companies in the transportation industry," says Dodge, "and UPS leaders realized technology was the way to catch up." The company's commitment to downsizing came from the top—from chairman and CEO Kent Nelson. Given the challenges of downsizing, this level of support is essential, Dodge says.

In the company's first major downsizing project, 100 minicomputers in

local UPS offices were replaced by PC LANs, and parcel tracking systems were decentralized. Dodge estimates that the \$11.8 million invested in that initial downsizing project was paid back in just 11 months by increased worker productivity. "It makes no sense to call New York if you've got a problem in Dallas—not if you're trying to improve your customer service," he says. But, he adds, "I'm careful to point out that for every good thing you can say [about downsizing], there's usually a substantial drawback."

Alice LaPlante is a Palo Alto, Calif.-based freelance writer.

A Downsizing Checklist for CEOs

(Give yourself one point for each "yes" answer.)

1. Do you trust your CIO's business judgment? (If your answer is no, skip this questionnaire; you have another problem altogether.)
2. Does your CIO report directly to you?
3. Does your CIO proactively meet the business challenges of your organization?
4. Has your CIO drawn up a clear technology plan for the 1990s? (Give yourself one bonus point if any company line managers have actually seen this plan.)
5. Has your CIO tried to brief you and the board of directors on this plan? (Award yourself one bonus point if you actually held the meeting.)
6. Are PC/Unix workstations and LANs part of the plan?
7. Has a complete cost analysis of the plan been done?
8. Does your CIO consider things such as image, voice and multimedia technologies to be part of the corporate definition of *information*?
9. Has your CIO demonstrated the potential of desktop technology to the employees who will actually use it? (Award yourself one bonus point if these employees were asked for their opinions of the demo.)
10. Does your CIO plan to increase the support staff for a downsized computing environment?
11. Has your CIO built a robust network infrastructure that can handle the workload of distributed computing without crashing?
12. Does your CIO's technology plan include reducing dependence on the mainframe so that mainframe costs will decrease at a rate greater than 15 percent per year? (Give yourself one bonus point if your CIO has set a target of eliminating all mainframe processing before 1996.)
13. Does your CIO emphasize using nonproprietary hardware and software so that the company will have a greater choice of technology suppliers, and subsequently, more competitive prices?

Rating System

Total points	Analysis
14-17	Your CIO is probably being actively recruited by the competition.
12-16	Your CIO has potential but needs assistance and encouragement.
7-11	Consider looking for a new CIO.
Less than 7	Consider a new CEO.

Source: Larry DeBoever, a systems consultant based in Acton, Mass.



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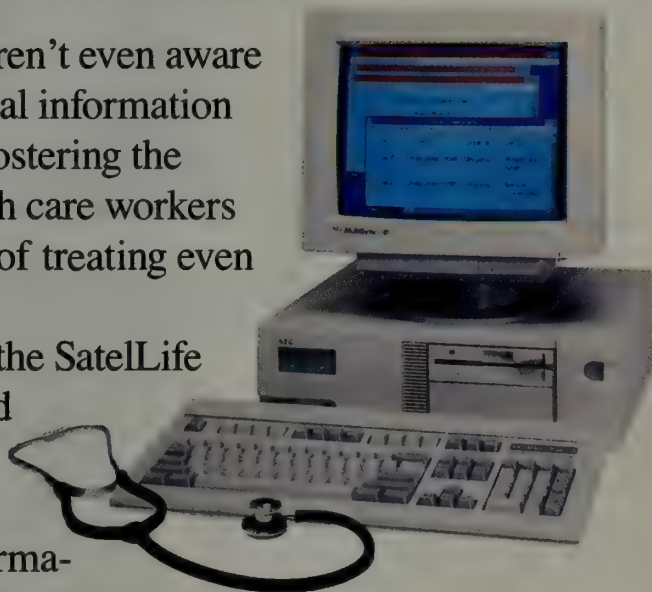
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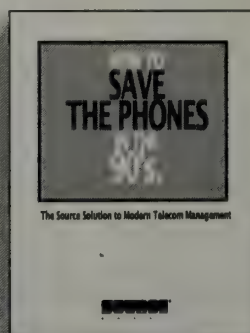
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BY DAVID H. FREEDMAN

Top Seed

Using the rapid response advantage of information technology, the aggressive agronomists at Pioneer Hi-Bred create designer corn for the 21st century.



FIELD OF SCREENS Credit for Pioneer's profitable grasp of technology belongs to CEO Tom Urban (l) and information systems head John Swanson.

MOST PEOPLE would be surprised to find that a farm-seed company is a leader in information technology. They shouldn't be, sighs Tom Urban, chairman, president and CEO of corn-seed producer Pioneer Hi-Bred International. Sitting in an office the size and color scheme of a corn patch, Urban patiently but pointedly notes that the farm industry has a long tradition of embracing technology. "Agriculture has achieved 35- to 40-percent annual gains in pro-

ductivity at times," he says. "Manufacturing pales in comparison."

Actually, Urban is being modest. Many large airlines and banks also pale in comparison to Pioneer when it comes to information systems. Pioneer's systems have given the company a formidable edge in R&D, operations and marketing—an edge that the company has parlayed into dominance of the corn-seed business. For the fiscal year ending last August, the company earned \$152 mil-

lion on sales of \$1.3 billion, taking 40 percent of the corn-seed market; closest competitor DeKalb Genetics earned \$10 million with nine percent of the market. Twenty years ago the two companies were neck and neck in market share.

Among those who find Pioneer's technology-driven performance stunning is Harvard Business School professor Warren McFarlan, an expert in the application of information technology for competitive advantage. McFarlan was so impressed when he visited Pioneer six years ago that he joined the board of directors. "Everyone thinks that the corn-seed business means wallowing in the mud," he says. "But Pioneer is absolutely the most high-tech company I'm associated with. In many ways it's similar to an aerospace company."

Much of the credit for Pioneer's profitable grasp of technology belongs to 58-year-old CEO Urban. Under Urban's direction, the company has come to spend \$92 million a year on R&D, or about seven percent of net sales, up two percent in the last six years. Information technology in particular has thrived under Urban: The company spent \$31 million on it in the last fiscal year, compared to \$8 million in 1983.

CORN-SEED BREEDING isn't rocket science; it's harder. At its core is the dauntingly complex world of plant genetics. From its founding in 1926, the Des Moines company has pioneered the production of *hybrid* corn, which is obtained by mixing and matching different strains of ordinary *varietal* corn, each of which has been *inbred*, or fertilized with its own pollen for several generations until its genetic characteristics are well established. When two different inbred lines are cross-fertilized, the result is a hybrid corn that is often exceptionally sturdy and imbued with the best characteristics of each parent.

Unlike varietal corn, however, hybrid corn is nearly sterile: The plant produces only weak seeds, which means 75-percent less yield compared with varietal corn. Therefore, farmers must purchase a new supply of seed each year from the vendor. To be of value to farmers, the advantages hybrid must outweigh the cost of seed. "We want to make sure farmers get \$4 back for every dollar they spend on seed," Urban says.

into our seed," Urban explains.

The challenge in hybrid corn breeding is to discover which pairs of inbred corn lines produce the best offspring. Pioneer's corn breeders can choose from among tens of thousands of inbred lines, which can be paired in billions of different combinations. The only way to determine which pairs will produce winning hybrid strains is to cross-breed as many as possible and observe the offspring carefully for desirable traits. Thus, large-scale experimental breeding is the game in the hybrid-seed business. And no one breeds on a larger scale than Pioneer, which creates some 70,000 experimental hybrids each year at 90 testing stations scattered around the world.

But Pioneer's real challenge is not so much to produce all of these experimental hybrids as it is to sort through them and decide which 12 or so of the 70,000 will end up winners. To make this determination, Pioneer has turned to an array of information systems—which comprise about a third of the company's information technology budget—to oversee the complex process of bringing the hybrids from the experimental stage to the market.

THE PROCESS STARTS when testing station researchers examine the growing new plants and enter data on 20 different characteristics—including size, moisture content, durability, and insect and disease resistance—into book-sized handheld computers made by Norand. (Pioneer bought Norand, which specializes in point-of-sale and inventory management systems, in 1976; it sold the company in 1989, but not before becoming sold on the benefits of handheld computers.) The data are transferred via modem to a large DECsystem computer at headquarters. Downloading is done either directly from the handheld or through a plug-in cable to a DECsystem minicomputer at the testing station. At headquarters, the information becomes part of the Comprehensive Research Information System, the software program at the core of the hybrid tracking process. CRIS compiles data from the testing stations and makes them available to all researchers through their local DECsystem computers.

Researchers from around the world then debate via VAXmail E-mail which 5,000 or so hybrids should be advanced

to the company's greenhouses, and then which 25 of these foundation hybrids should be sent to growers to plant in more than half a million on-farm test plots around the world. "We used to do all this by the seat of our pants," says senior vice-president of research Robert Seifert, who, like many Pioneer technology managers, started out breeding plants in a testing center. "Now it's like taking an open-book test—the data are right there."

When the test plots are harvested, a scale on the combine weighs the corn to determine the bushels per acre. An on-board device shoots an electrical current

rently holds a seven-bushel-per-acre, or five-percent, edge over its competition, up from 2.2 bushels in 1982. Pioneer owes much of that edge to the time savings that CRIS has helped bring about. The company now brings the hybrid seed from initial test to market in six years instead of 12, while its competitors are only down to eight years.

INFORMATION technology is also cutting costs in the research and production process, says Pioneer's information head, John Swanson. Better seed inventory and process management have saved the company \$4 million per

Everyone thinks that the corn-seed business means wallowing in the mud," says Harvard Business School professor Warren McFarlan. "But Pioneer is absolutely the most high-tech company I'm associated with."

through a sample of corn to measure its moisture content (moister corn has to be stored longer to dry before selling, which costs the farmer money). These data are fed into a Norand handheld computer and then downloaded at the end of the day to headquarters. During fall harvest, information from as many as 150,000 test plots a day comes streaming into Des Moines. Every second counts: The data are used to determine which dozen new hybrids will be introduced as new products the following spring—which means the seed-producing parents have to be grown in commercial quantities over the winter in Hawaii, Puerto Rico, Mexico, Chile, Jamaica, New Zealand and other locations. The company has only three days between harvesting and winter planting seasons to make that decision. If it misses that window, a product will be a year later to market. "What makes Pioneer successful is the ability to cull massive amounts of data in an unbelievably short time," says McFarlan.

The time advantage is crucial. Farmers base their corn-seed buying decisions largely on which seed yields the most bushels per acre. Pioneer seed cur-

year, while a software program that tracks 60,000 contract workers will save the company between \$2 million and \$3 million per year.

Pioneer's marketing efforts are also highly dependent on information systems. The company's Customer and Prospects Systems tracks some 600,000 farmers in the United States and Canada, a group responsible for more than 45 percent of the world's corn crop. The in-house system, which is constantly updated by the sales force, records who runs which farms, how many acres they grow of which crop, which company's seed they buy and whether they buy it from a friend or relative (as is the case with banking, relationship selling is the name of the game). Another software program tracks the yields from 17,000 plots on which 130 different corn hybrids are grown, providing detailed comparisons of Pioneer seed yields versus the yields of its competitors' seeds.

When they meet with customers and prospects, Pioneer's 4,500 sales reps, who are generally farmers selling part time, are armed with handheld computers and printouts of customized reports generated from PCs at their homes or

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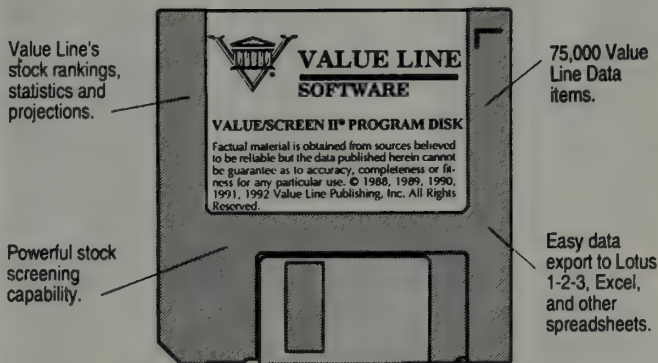
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offices. If the farmer doesn't currently plant Pioneer seed, the sales rep's goal is to get the farmer to plant a test strip of Pioneer seed. The rep can use the reports to show how hundreds of similar farms have improved their yields with Pioneer. "Farmers aren't real quick to change," says Swanson. "But if we don't move them to a new product, a competitor will." The reps enter orders and record new information about the farmer on the handheld computer.

What happens when things go wrong? Even if a test strip of a standard Pioneer seed comes up short against a competitor's seed—apparently a rare occurrence—reps don't give up. They can call up databases that reside on their home PCs to identify any of 45 or so hybrids designed for unique soil or climate conditions, resistance to particular diseases or pests, fast maturation, or especially high protein or starch content for the livestock-feed or corn syrup markets. They can also communicate via E-mail with company agronomists to get advice on pesticides and other farming tips that might restore Pioneer's dominance.

Largely due to its increasingly computer-assisted approach to sales, Pioneer's market share has jumped four percent since 1990. "We're always vulnerable to a competitor coming out with a better-performing product," says Urban. "But we won't get outsold by a weaker product." The systems have also improved the efficiency of sales reps, who now process orders and swap technical data, selling tips and customer data via E-mail. Twenty years ago reps typically had 20 customers; now they have as many as 500.

To further strengthen its relationship with farmers and capitalize on the information technology edge it has over competitors, Pioneer is selling custom PC-based farm management software and data. "The average farm is bigger than most medium-sized urban businesses, and the farmer needs the same kinds of tools to run it," Urban explains. "Information is a critical element in the mix of product enhancements we can offer." The software packages help farmers do everything from map soil moisture to determine optimal crop distributions based on market price projections and government subsidies. Pioneer currently oper-

ates its software business at a loss but hopes to break even eventually.

URBAN HAS even bigger plans for the information business. The company hopes one day to establish a massive two-way satellite network through which it can beam several channels of video and data to farmers and receive information back from them. By charging equipment, monthly and per-channel fees, cable-TV style, the venture could be profitable in its own right. But the bigger payoff for Pioneer would be in further involving itself in the farmer's

cell of a plant with some other desired characteristic, such as a sturdy stalk. (Eventually, genes could come from plants other than corn, and even from bacteria.)

Pioneer has also been investing millions of dollars in biotechnology equipment, such as particle guns that literally shoot DNA into cells and machines that automatically prepare DNA samples 10 times faster than can be done manually. Information technology, of course, will play a crucial role too. The company is purchasing high-powered Sun, DEC and Silicon Graphics Unix workstations to

Could biotech someday wipe out Pioneer's hard-won edge? Don't bet on it. The company is purchasing high-powered Sun, DEC and Silicon Graphics workstations to crank through its own genetic experiments.

business and life. Information on acreage, cropping and purchase habits would enable Pioneer to provide farmers with customized analyses—and to build up its own sales and marketing database. "We'd have a real-time interactive relationship with farmers," says Urban.

Perhaps the most promising technology in all of agriculture right now is biotechnology. Scientists may soon be able to genetically engineer ultrahigh-performance strains of corn and other crops by swapping chunks of DNA in and out of the cells in seeds. If the process is perfected, much of the multi-year process of inbreeding parent plants and then experimentally cross-breeding them could be replaced by a day's work in the lab.

Such a development could wipe out much of Pioneer's hard-won edge in the hybrid development process. By that time, however, Pioneer may have an equally impressive edge in biotechnology. Company researchers are working on a map of corn's thousands of genes, which would enable them to link a set of genes to a characteristic such as root growth. Appropriate genes could then be lifted out of a cell from a plant with strong root growth and inserted into the

crank through the huge amount of genetic data generated by each sample. "We need to reduce the mass of data points to a level where people can understand what's going on," explains Al Grunst, director of worldwide data management.

Some promising prototype corn strains have already been genetically altered in Pioneer's laboratories. Managers say a genetically engineered corn seed could hit the market in about five years. Most of that seed's characteristics will come from conventional hybrid breeding techniques, but many observers think biotechnology will gradually steal the show. Still, Urban is too aware of his company's roots to speak of biotechnology in grandiose terms. "This company has gone 65 years without a breakthrough," he says. "The very word *breakthrough* is anathema to us. We're looking for incremental improvement."

On the other hand, one company's increment is another company's breakthrough. At Pioneer, the standards have grown very, very tall.

David H. Freedman is a contributing editor at Discover. He also writes for CIO, Science and The Boston Globe.

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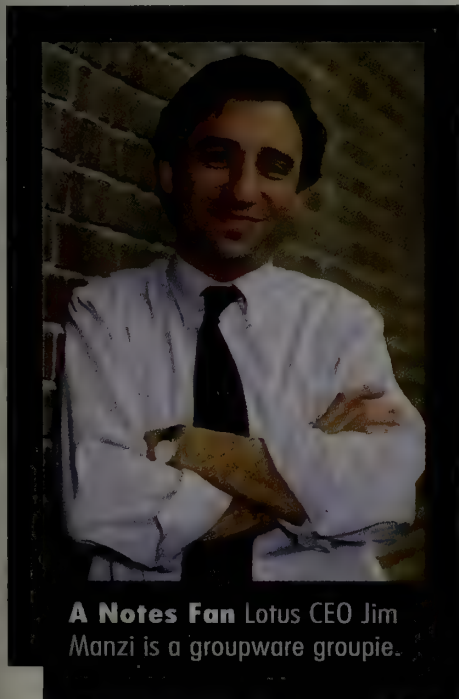
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BY ROBERT X. CRINGELY

Thanks for Sharing

The dramatic change from master/slave to client/server networks means an end to waiting (and begging) for vital business information.



A Notes Fan Lotus CEO Jim Manzi is a groupware groupie.

THE LIFE CYCLES of companies often follow the life cycles of their customers. This is no surprise to makers of hair color or disposable diapers, but it has only recently occurred to the ever grayer heads running companies like IBM. Most of IBM's customers, the corporate computer folks who took delivery of all those mainframe and minicomputers over the past 30 years, are nearing the end of their careers. Having spent a full generation learning the hard way how to make cantankerous, highly complex,

corporate computer systems run smoothly, this crew-cut and pocket-protector gang is taking that precious knowledge off to the tennis court with them, where it will soon be lost forever.

Marshall McLuhan said that we convert our obsolete technologies into art forms, but nobody is going to make a hobby of collecting \$1 million mainframe computers—trust me.

This loss of corporate computing wisdom, accelerated by early retirement programs that have become so popular in the downsized corporate world of the 1990s, is among the factors forcing a complete changeover in computing technology. Since the surviving computer professionals are mainly from the 1980s—and are usually PC people who not only know very little about mainframes but were typically banned from the mainframe computer room—there is often nobody in the company who really knows what he or she is doing. So times and technologies are being forced to change.

Even IBM has seen the light. It announced last November that, along with cutting 25,000 jobs and posting a \$5.4 billion loss for 1992, it would be starting a new business unit to sell something called client/server computing.

LIKE EVERY other important computing technology, client/server has taken about 20 years to become an overnight sensation. Client/server is the link between old-fashioned centralized computing in organizations and the newfangled importance of desktop computers. In client/server computing, powerful centralized computers called servers hold the data, while desktop computers called clients use those data to do real work. Both types of computers are connected by a network. Getting all these dissimilar types of equipment to work together looks to many informed investors, consultants and service vendors like the next big business opportunity in computing.

In the old days before client/server, the computing paradigm du jour was called master/slave. The computer—a mainframe or minicomputer—was the master, controlling dozens or even hundreds of slave terminals. The essence of this relationship was that the slaves could do nothing without the permis-

sion of the master. Turn off that big computer and its many terminals were useless. Then came the PC revolution of the 1980s, in which computers got cheap enough to be bought from departmental budgets, so everybody got one. At a time when getting answers to simple business questions from the corporate computing department took weeks of patient negotiation/begging, it was suddenly possible for a 27-year-old M.B.A. with a PC, a spreadsheet program and three pieces of questionable data to talk his bosses into looting the company pension plan and doing a leveraged buyout. The world of computing was changed forever.

In 1980, virtually all corporate computing power resided in the central computer room. By 1987, 95 percent of corporate computing power lay in desktop PCs, which were increasingly being linked together into local area networks to share printers, data and E-mail. There was no going back following that kind of redistribution of power, but for all the newfound importance of the PC, the corporate data still lived in mainframes. PC users were generally operating on ad hoc data, copied from last quarter's financial report or that morning's *Wall Street Journal*.

Client/server accepts that the real work of computing will be done in little desktop machines and, for the first time, attempts to get those machines together with real corporate data. "Think of it as corporate farming of data," says Bob Metcalfe, inventor of Ethernet, the dominant computer networking technology. "The move to PCs swung the pendulum—the percentage of available computing power—away from the mainframe and toward the desktop. Local area networks have helped the pendulum swing back toward the server. Sure, we are again dependent on centralized data, but that is not a disadvantage. A century ago we grew our own food, too, but do I feel oppressed by modern farming? I feel liberated."

Though client/server computing is not without its problems (data security, for one thing, is much harder to maintain than it is for either mainframes or PCs), it allows users to do things they were never able to do before. The server (or servers—there can be dozens of them on a network, and clients can be con-

nected to more than one server at a time) holds a single set of data that is accessible by the whole company. For the first time ever, *everyone* is using the same data, so they can all have the same information. It's this turning of data into information (pictures, charts, graphs) that is often the whole point of using computers in business. The amount of data we are talking about is enormous, far greater than any PC could hold, and *vastly* more than PC software could sort in reasonable time. "American Express has more than 10 terabytes of data—that's 10,000,000,000,000 bytes—on mainframes, mainframes that they *must* get rid of to cut costs and boost productivity," says Bruce

Nelson, chief technologist at Auspex Corp., a maker of large servers based in Santa Clara, Calif. So if a company, university or government agency wants to keep all its data accessible in one place, it needs a big server, which is more often than not still a mainframe computer.

Mainframes, though good storehouses for centralized data, are not so good for displaying information. "People are used to PCs and workstations with graphical user interfaces [such as Windows]. Mainframes don't have the performance to run GUIs," explains Bill Joy, co-founder of Sun Microsystems, the maker of the most popular workstations that use the Unix operating sys-

tem. "It's much more cost-effective to use microprocessors, to put part of the application on the desk so the interface is quick. That means client/server."

Joy claims that users are changing over to client/server in phenomenal numbers. "Once you've crossed the threshold, it's a stampede," he says. "First it was financial services, then computer-aided design, now ordinary companies."

X Marks the Spot

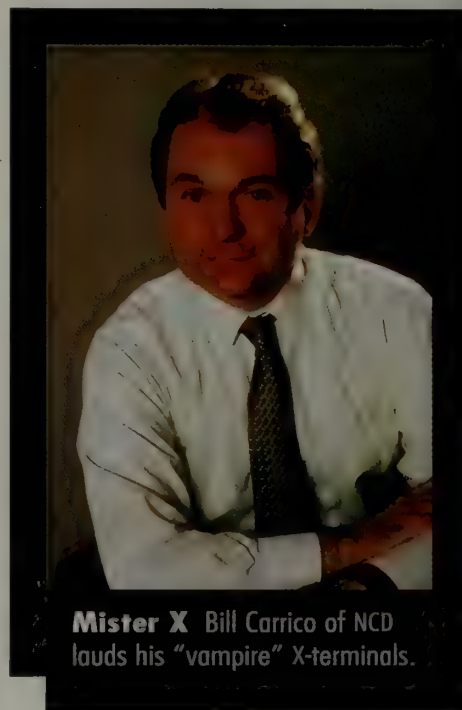
A twist on the plot of client/server computing comes from the X-Window terminal business, which offers a slightly different, and often more manageable, way to do client/server computing. The X-Window system, developed at MIT, is a standard way of sending graphical images across a network. Not surprisingly for an alternative solution, what would normally be called a client is, in the world of X, called a server; the "client" application runs on a host computer. Got that?

Unlike traditional client/server—where two computers are sharing data and performing different roles in what is effectively a joint application—X-terminals are just very intelligent computer terminals that use local computing power simply to manage the graphical user interface. X-terminals are "vampires," sucking computing power from underutilized workstations on the network, often without the workstation user even noticing the loss of computing blood. This power transference takes place in the background, according to Bill Carrico, president and CEO of Network Computing Devices Inc., Mountain View, Calif. NCD is the foremost maker of X-terminals, although Digital Equipment Corp., Hewlett Packard and IBM sell competing units.

"With X-terminals, you never have to upgrade the desktop unless you want a bigger screen," Carrico explains. "That's because you are just sending graphics calls across the network, rather than hogging the net with a file system and applications traffic. If you want a faster X-terminal, just connect to a more powerful host. The cost of ownership of X-terminals is far lower than the cost of workstations and PCs, because X-terminals do not have to be separately managed. In the typical client/server environment, Salomon Brothers, for example, has 2,000 Sun workstations, which require many Unix guys to service them. Goldman Sachs, on the other hand, has nearly 2,000 NCD machines, which require no extra MIS guys, because X-terminals can be remotely managed."

Mixing cheaper X-terminals and Unix workstations is a good way to get per-seat costs down, and Hewlett Packard aggressively pushes the idea of selling two X-terminals for every workstation. At NCD, according to Carrico, the far more realistic ratio is 20 X-terminals per workstation.

"There is all sorts of computing power available on these networks, but we're up against machismo," Carrico says. "The problem we have as a company is that you are not a man if you don't have 50 MIPS on your desktop."



Mister X Bill Carrico of NCD lauds his "vampire" X-terminals.

WHAT'S BEHIND this jump to client/server is a matter of managing intellectual inventory more effectively. The nonhierarchical management style—the flat organizational model—that is so popular in the 1990s requires more communication among parts of a company. It requires a corporate information base. "You can't do this with mainframes or minis," Joy says, "because they aren't powerful enough to run a GUI, and you can't do it with PCs because of reliability, security, memory protection and viruses. At Sun we like to say that if you can do your job without a computer, then use a PC."

The appeal of client/server goes beyond simply massaging corporate data with PC applications. What really appeals to corporate computing honchos is the advent of new types of applications never imagined before. These applications, called groupware, make collaborative work possible. The simplest version of groupware is E-mail,

still the most common client/server application. Among the most sophisticated groupware applications available now is Notes from Lotus Development Corp., Cambridge, Mass. Notes is an application that users love but can't describe. It is a way of organizing information and documents on a server to allow widely dispersed users to share knowledge. "Notes is different from electronic mail," says Lotus CEO Jim Manzi. "E-mail is a serial event, but with Notes, you look into the server and see a whole pile of information. You can come into the conversation or project in the middle, yet back up and see the whole context of the project before you entered it."

Lotus claims that companies using Notes gain a typical productivity increase of 400 percent from their investment. Compaq, IBM and Intel all use Notes, which runs under IBM's OS/2 operating system, for their customer service application, allowing the companies both to report customer problems and to search quickly through an informal database of problem responses. Three of the Big Six accounting firms are Notes customers.

NOTES ISN'T the only example of groupware. More are appearing every day, including eSSbase, from Arbor Software, a privately held company in Santa Clara, Calif. eSSbase is a spreadsheet consolidation program that searches the corporate network for linked spreadsheets, updating them automatically with current data and consolidating the spreadsheets from any number of departments into a single, real-time look at the state of company progress on practically any measure.

The lingua franca of client/server computing is called structured query language (SQL), an mid-1970s invention from IBM. Client applications running on PCs and workstations talk SQL over a network to back-end databases running on mainframes or on specialized servers from companies like Auspex. The back-end databases come from companies like IBM, Informix, Oracle and Sybase, while the front-end applications running on PCs can be everything from programs custom-written for a single corporate customer (the way Wells Fargo Bank's customer service application was done) to general productivity applications like

Client/Server Glossary

back-end database—An application running on a server that stores data and responds to requests for those data from front-end applications running on workstations and networked PCs.

client—The requesting program in a distributed computing system. Clients send requests to servers across a network and wait for an indication from the server that the request is complete.

electronic mail (E-mail)—A popular application on both local and wide area networks that provides communication among users.

Ethernet—The most popular networking architecture, a bus-structured local area network designed originally at Xerox Corp.

front-end database—An application running on a workstation or networked PC that requests data from a centralized server, then presents those data in a way useful to the user. Each front-end has different features, yet the back-end data always remain the same.

graphical user interface (GUI)—A graphics-based user interface that incorporates icons, pull-down menus and a mouse, as found in Macintosh, Windows and OS/2 Presentation Manager.

groupware—A class of applications that use collaborative data stored on a server. Examples are electronic mail, group scheduling and project management applications.

local area network (LAN)—A network designed to connect devices, including computers and printers, over relatively short distances, typically within a building or campus.

mainframe—A large computer that typically supports many simultaneous users on terminals.

middleware—Software that functions to interpret requests between a PC or workstation application and an antiquated database running on a mainframe. Sometimes also used to refer to any software that helps an application communicate with an underlying operating system.

open computing—A movement spawned by the Unix community to make computers and software that are standardized along published specifications so that hardware and software can be interchanged.

protocol—The formal rules that two or more machines must follow to be able to exchange and read instructions and messages.

remote log-in—A network service that allows a user on one machine to connect to another machine across a network and interact as if directly connected to the remote machine.

server—A process in a distributed computing system that provides a service in response to requests from clients.

structured query language (SQL)—An IBM invention that defines a way of organizing and calling data in a computer database. The dominant SQL database in the mainframe world is IBM's DB-2. SQL is the standard around which most client/server databases are being built.

terminal emulation—A capability that enables a PC or other intelligent device to act as a host terminal.

Token Ring—A local area network architecture in which a token, or continuously repeating frame, is passed sequentially from station to station. Only that station possessing the token can communicate on the network. This is IBM's answer to Ethernet.

Transmission Control Protocol/Internet Protocol (TCP/IP)—The dominant protocol used on networks of Unix computers.

Unix—An operating system developed at AT&T Bell Laboratories. Very popular in data communication and multi-user environments, Unix runs on a wide variety of computers.

wide area network (WAN)—A network connecting devices over long distances, typically using a common carrier.

workstation—Powerful personal computer used in a client/server environment.

Microsoft Excel or Lotus 1-2-3, spreadsheets to which have been added the ability to access SQL databases.

Often the back-end database only looks like SQL. "We need SQL so that client applications will have something consistent to talk to, but SQL itself isn't that popular in the big database world," says Christine Comaford, president of Corporate Computing Inc., a consulting firm based in Sausalito, Calif., that has helped 50 of the nation's largest corporations downsize from mainframes to servers and develop graphical client applications. "SQL is slow. IBM has sold about 6,000 licenses for DB-2, its mainframe SQL database, which means it doesn't really have much market share. Older, non-SQL databases such as IBM's own Virtual Storage Access Method are much faster, which means they are going to be with us for some time. That's why we need middleware."

Middleware is yet another type of software that sits between the client applications and the back-end database. Typically, the client program is asking for data using SQL calls that the back-end database doesn't understand. Sometimes middleware makes the underlying mainframe database think it is talking not to a PC or workstation, but to a dumb computer terminal; the middleware simply acts as a "screen scraper," copying data off the emulated terminal screen and into the client application. Whatever it takes, it is the job of middleware to translate between the two systems, preserving the illusion of open computing.

OPEN COMPUTING, also called standards-based computing, is at the heart of client/server. The idea is simple: Customers ought to be able to buy computers, networking equipment and software from whomever offers the best price or the best performance. All those products from all those companies ought to work together right out of the box. Even IBM's new client/server computing effort is based on putting together for customers the right combination of hardware and software, even if this means recommending products from competitors. Sure.

For all its promise, client/server is hard to do. Open systems often aren't as open as their developers would like to think. The quality-conscious engineers

at Hewlett Packard, for example, once "fixed" their Ethernet software, making a slightly improved product that unfortunately couldn't communicate with non-HP computers.

Shaky standards aren't the only problem. The people being asked to write specialized front-end applications inside corporate computing departments also have a long learning curve to climb. "Typically, these are programmers who come from a mainframe background and they have terrible trouble designing good, high-performance graphical user interfaces," says Comaford, the GUI consultant. "It can take a year or two to develop the skill set needed to do these kinds of

Companies that will do less well because of the migration toward client/server computing are traditional midrange computer companies, traditional mainframe software companies, publishers of PC personal productivity applications and, probably, IBM.

Ironically, IBM, which is relatively late getting into the client/server business, might have controlled this business, too, had events unfolded a little differently back in the mid-1960s. Back then Big Blue played for a short time with a concept it called teleprocessing, which put on an executive's desk a simple computer terminal connected by telephone line to a mainframe comput-

Open computing is at the heart of client/server. The idea is simple: Customers ought to be able to buy computers, networks and software from whomever offers the best price or the best performance.

applications, but once the knowledge is there, then they can bang out application after application in short time." The Wells Fargo customer service application, for example, was finished in less than a year. It would have taken two to three years to do the same application as a purely mainframe product.

FOR THOSE WHO want to get into the business of client/server, the greatest need is for consultants who can help companies do this voodoo. Simple investment opportunities in client/server can be found in software companies that make front ends (Microsoft and Borland), middleware (ParcPlace Systems, PeopleSoft and PowerSoft) and back ends (Informix, Oracle, Sybase and Gupta), according to Ann Winblad, general partner at Hummer-Winblad Venture Partners, a venture capital outfit in Emeryville, Calif., that invests only in software companies. "There are further investment opportunities in the networking infrastructure, including Cisco Systems, Novell and SynOptics Communications, but the market has already noticed these companies."

er somewhere. The idea was that the Big Boss would be able to look into the bowels of the company and know instantly how many widgets were being produced in the Muncie, Ind., plant.

That was the idea, but what IBM discovered from this mid-1960s exercise was that American business executives didn't know how to type and didn't want to learn. They had secretaries to type for them. No data were gathered on what middle managers would do with such a terminal because it wasn't aimed at them. Nobody even guessed that there would be millions of M.B.A.s hitting the streets over the following 20 years, armed with the ability to type and with the quantitative skills to use such a computing tool and do some real damage with it. That was yet to come, so exit teleprocessing. IBM marketers chose to believe, as indicated by this test, that American business executives would never be interested.

Robert X. Cringely is the pseudonymous author of Accidental Empires: How the Boys of Silicon Valley Got Rich and Still Can't Get a Date.

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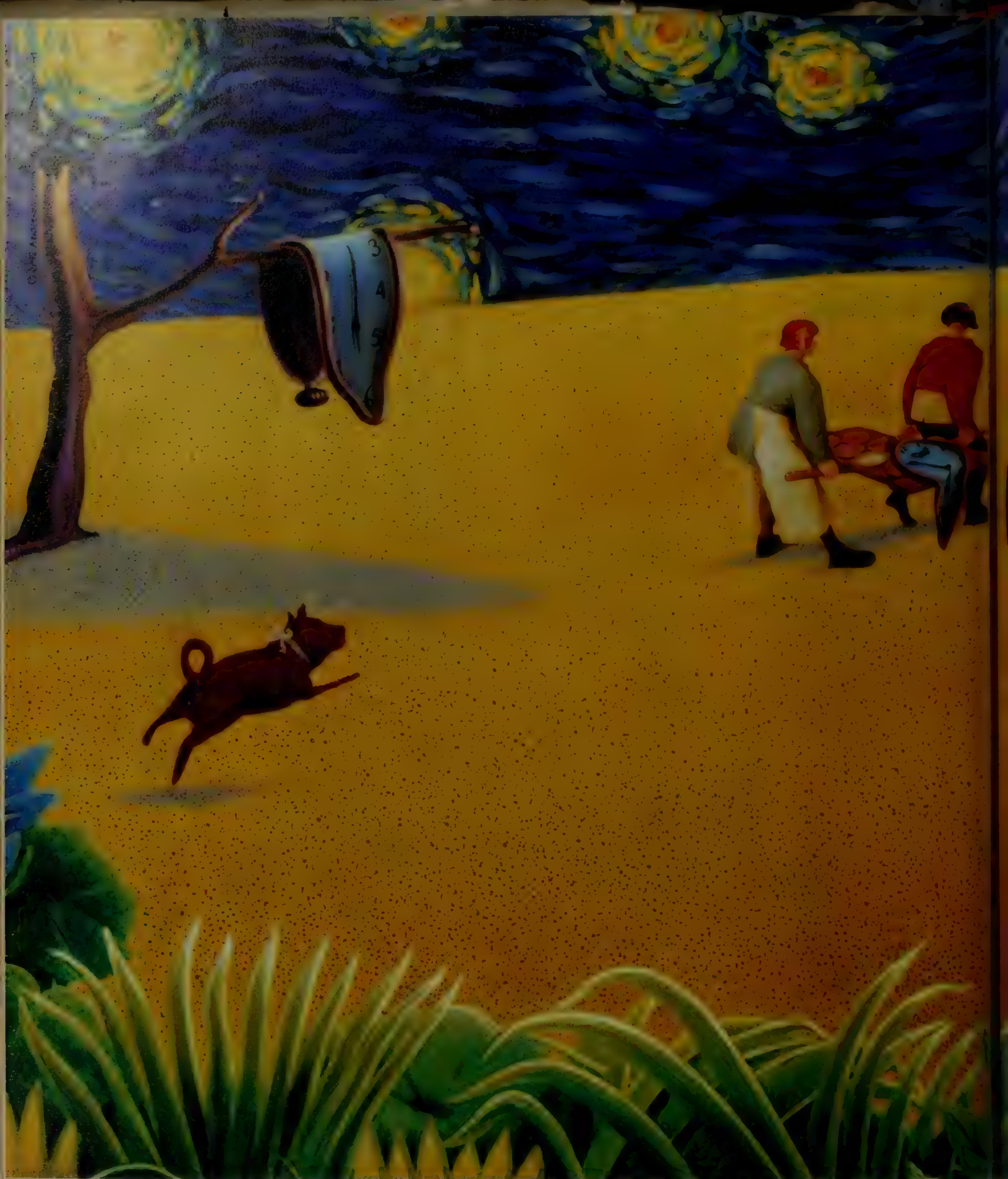
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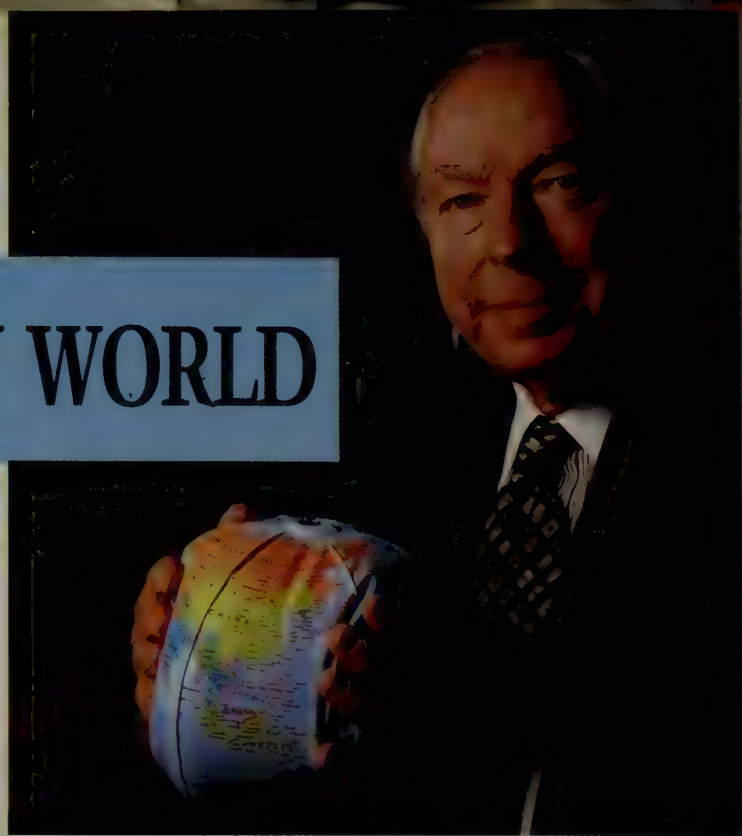
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WRISTON'S NEW WORLD

Technology, according to this prominent ex-banker, allows capital to go where it's wanted and stay where it's well-treated.



How are computers/communications changing the world currency markets? Recently, we talked to Walter Wriston, former Citicorp chairman and author of The Twilight of Sovereignty: How the Information Revolution Is Transforming Our World. Here is what he told us.

The electronic superhighway can transform the livelihood of a farmer in a small village on a faraway island nation or handle in a single day an exchange of financial assets that exceeds the gross domestic product of most countries in the world. Telephones were only recently installed in several Sri Lankan villages. Until then, farmers had sold their produce to wholesalers for but a fraction of its market value in the capital city of Colombo. After the telephone came, the farmers always knew the prices in the city market and increased their income by 50 percent. Even such a simple manifestation of the power of an information network can change economic destinies and may start a chain of political events of immense consequence.

The very same network in the past few years has revolutionized the way the world's money is traded. As late as 1973, the world money market, such as it was, resembled a giant telephone bee. Groups of traders sitting around banks of black telephones would dial up other traders or brokers with their bids and offers, laboriously shopping for the best deal. No matter how industrious the traders were, they saw only a small part of the market. This all changed when Reuters replaced the black telephone with a video terminal, called Monitor, that assembled bids and offers from banks, thereby creating the first true global money market. As recently as 1980, the volume of trading in the foreign exchange market in the United States was estimated at only \$10.3 billion. By 1989, it had grown to an average of \$183.2 billion per day.

Now, including Eurodollars, estimates are that two to three trillion dollars a day are exchanged in Manhattan alone.

When the market is that large and fast-moving, there is no way a central bank can influence the value of its currency for more than a few minutes.

Currency trading today is primarily capital transfers, not trade. This huge floating pool of capital goes where it is wanted and stays where it is well-treated. If people who own that capital perceive that a nation's economic policies are bad or that the return on their investment balanced against the security of their investment is higher in another country, it goes. Possibly the greatest example of this occurred in Latin America. Not many people realize that during the Latin American debt crisis of the 1970s, Latin American people had on deposit in New York, Miami, London and Zurich many times the amount of the total debt of Latin America. The reason was that they didn't trust their own governments. Once the governments reformed, money started flowing back in.

Mexico under Carlos Salinas is a freer market than it ever was before and is consequently enjoying an inflow of capital by Mexicans who had previously parked their money abroad. Chile has a huge capital inflow from its own people. Even Argentina is beginning to see inflows.

Thanks to the growing powers of technology, the ability of a sovereign power to dictate investment is overwhelmed by the new world order of traders sitting in front of flashing computer screens. National sovereignty is giving way to Marshall McLuhan's global village. Borders are not boundaries anymore. Foreign exchange control is no longer possible. In effect, technology gives governments a choice: create hospitable climates for capital or suffer the consequences.

Bottom line: Money will flow into countries that pursue policies based on free enterprise, low taxes and open trade. It will flow out of countries that insist on central planning, high taxes and protectionism.

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THE GREAT PATENT PLAGUE

More and more of technology's big players are crushing progress under the weight of intellectual property litigation. And the courts are playing the villain's role.

GEORGE HWANG'S SECOND American dream is entangled in a web of high-tech litigation, and chances are slim it will ever get free.

This would have been unthinkable to the Chinese-born, Taiwanese-bred Hwang a few years ago. Smitten by U.S. free-market capitalism, the skinny, intense engineer emigrated here in 1967 to pursue the American dream. He found it in high technology. His first company, memory chipmaker Integrated Device Technology Inc. of San Jose, Calif., went public in 1984 after just four years in business. By age 43, Hwang had become another unlikely Silicon Valley millionaire.

Yet it was Hwang's second stab at entrepreneurship, ULSI Systems Inc., that seemed destined to become really big. ULSI planned to produce a line of low-cost, hugely profitable coprocessor chips in 1987, a time when giant Intel Corp. was generating hundreds of millions of dollars and dominating the market with its coprocessor chip. "We saw that it took about \$10 to make these chips and that they sold for \$800 to \$900 a pop. What margins!" recalls the 51-year-old Hwang in his still-thick accent. "We figured we could do [the product] better,

give the customers an alternative. We figured this was the American way."

But Hwang figured wrong. He and six-year-old ULSI have been battling Intel since 1989, not in the marketplace but in the courtroom, fighting patent infringement and, more foreboding, criminal and civil trade-secret theft charges. The criminal allegation is an unusual one for Silicon Valley. Those involved with high-tech litigation in Santa Clara County remember only about half a dozen cases deemed serious enough to try in criminal court in the past 30 years. A guilty charge for entrepreneur Hwang will mean a jail term.

Tiny ULSI has not had a smooth ride through the court system. It was wiped out in round one of the infringement case, enjoined in the process from using the Hewlett Packard Co. foundry in Oregon that was making its chips. The injunction was suspended in the appeals process, however. Hwang's criminal proceedings were scheduled to start in late February, which would keep him away from ULSI for three to four months, since defendants in criminal cases must appear in court every day.

Lost management time, however, may be the least of Hwang's worries. The deputy district attorney in charge of the case has accumulated allegedly incriminating evidence against Hwang and fellow defendant Alfred Chan, who was on the team that designed Intel's 387 math coprocessor, the product ULSI is accused of copying.

Chan left Intel to join ULSI in 1987, and, according to Hwang's lawyer, Thomas J. Nolan, some Intel documents "ended up" at Hwang's company. Although the papers were subsequently returned, those materials, plus four other boxes of Intel documents found in Chan's garage, form the basis of the criminal case. When his lengthy criminal trial is over, Hwang will face yet another lawsuit, the civil trade-secret theft case. He may do this from prison.

ULSI, meanwhile, has survived only by virtue of Hwang's own estimated \$3 million investment, half of which he's shelled out for legal bills. Housed in a stucco low-rise in a low-rent district of San Jose, ULSI employs 40 rather than the hundreds Hwang once envisioned. And the company remains a bit player in the coprocessor chip market it set out

to attack, having lost out to newcomers such as Cyrix Corp., Richardson, Tex., which sneaked into the market while ULSI was tied up in court and quickly gained some 20 percent of the market. Cyrix, however, was also sued for patent infringement as soon as it entered the business by—you guessed it—Intel.

On the face of it, Intel's continuing squabbles with ULSI and Cyrix appear to be about infringement of the company's intellectual property. Some within the industry believe these battles have as much to do with Intel's desire to slow down and stomp out competitors as anything else.

Faced with increasing competition, eroding margins, escalating R&D costs and shrinking market share, some high-tech companies are using the legal process to achieve business goals that should rightfully be determined by the rigors of the marketplace. Structural changes in the courts coupled with other legal developments have made it possible for companies to use intellectual property lawsuits as intimidating and often deadly competitive weapons—companies that can afford protracted, big-ticket litigation, that is. This usually means big companies, like Intel.

But hold on. Wasn't the technology business built by small companies that freely traded ideas and talent, unimpeded by lawsuits? This bit of history seems to have been forgotten by many of today's high-tech plaintiffs. Says the always-glib T. J. Rodgers, CEO of San Jose-based Cypress Semiconductor Corp., "Some of the biggest proponents of intellectual property litigation today were some of the best rip-off artists of the past."

The industry's entrepreneurial ardor could be dampened if it decides to forsake its free-spirited heritage in favor of burdensome litigation. George Hwang, for one, is embittered, and his company is all but destroyed, thanks to Intel's legal tactics. In a less litigious scenario, Hwang—even if he had been found guilty of filching trade secrets—might have been allowed the chance to compete after misappropriated documents had been returned. ULSI might have been a major employer in San Jose; its engineers might have produced innovative products. That's the way Silicon Valley worked 10 years ago.

Litigation may also prove repellent to technology investors, who can find better things to do with their capital than use it to fill lawyers' pockets. There are some indications that this is already happening. "We steer very wide of any project that has the threat of litigation," says C. Richard Kramlich, managing partner of the \$700 million venture investment firm New Enterprise Associates, San Francisco. Adds New York City venture investor Fred F. Nazem, "The litigation surrounding new companies is a darned ugly area. It's scaring investors away from innovators."

Worse yet, the distraction of intellectual property litigation could impair the industry's ability to bring fast-paced innovations to market, a knack that's made the U.S. electronics industry second to none. Already lawyers and legal issues have become ubiquitous in some areas of high technology, restricting this country's ability to compete globally as European and Asian companies steer clear of unproductive legal battles.

Although protecting U.S. inventions is important, one can go too far in employing lawsuits and courts to do so. Fifteen-year veteran Silicon Valley lawyer Michael Ladra warns, "We could go too far with intellectual property litigation.... The industry could choke itself on it."

Founding Fathers' Special Favor to Technology

Patents have always been troublesome in our free-market economy. When this country's Founding Fathers set out in 1789 to "promote the progress of science and the useful arts," they did so by granting patents, which gave an inventor exclusive rights to his or her creation for a period of 17 years. This was a tough measure for them to adopt. "You have to remember that these people were not fans of big government," notes Boston University School of Law patent professor Robert P. Merges. "They really didn't like the idea of monopolies."

But they coveted the promise of innovation. "The men who wrote the Constitution thought that by offering a monopoly on an invention, by granting the right to exclude, people would be induced to...invent. Innovation was that important to them," says Donald S.



Chisum, an intellectual property law professor at the University of Washington, Seattle, and author of *Chisum Patents*, the eight-volume bible of the patent law industry. Adds Merges, "Our patent policy was our original industrial policy, even though broad-based. The Founding Fathers wanted to do a special favor for new technology."

Clearly, the system worked, propelling the United States to the forefront of technology, from early farming inventions such as the cotton gin to high-tech innovations like the personal computer. But the system is now 200 years old, notes Chisum, and "something of that vintage often gets to be a problem. The statutory language is vague and ancient. And there have been too many court cases trying to interpret that. This leads to litigation and to expense."

Apparently, this has been the case for some time. Chisum notes that in 1836, Congress complained that patent statutes were causing too much litigation. The Patent Office (now the Patent and Trademark Office) was created in response to this perceived prob-

T*he burden of intellectual property litigation could impair the industry's ability to bring fast-paced innovations to market, a knack that's made the U.S. electronics industry second to none.*

lem so that patents, which had previously been issued on a casual basis, could be formally granted, thereby limiting legal disputes.

The methods used to curb litigation in the 1840s, though, actually contribute to it in the 1990s. The PTO, as it is called by members of the patent bar, is today a government agency burdened with poor guidelines and overwhelmed by too much work. "Ballpark, there are 1,400 patent examiners who must look at more than 150,000 patent applications a year," observes Washington, D.C., lawyer Gary M. Hoffman, who put in a five-year stint as a patent examiner. "Some do have technical backgrounds [in the areas they review], but they have quotas to meet, which limits their ability to be thorough. And their files are not always complete. They do not always have access to all the prior art."

Chisum believes that high turnover and poor morale among examiners compromise some patents. In addition, he complains that some rules are just plain silly. For example, in Europe patents are published 18 months after they are filed so that prior art—current technological inventions—is revealed, which keeps inventors apprised of developments in specific industries. In the United States, inventions remain secret until they are patented, which sometimes takes years. This means many patents are issued without full knowledge of existing technology. Says San Francisco lawyer Harold McElhinny, "What we are getting as a result [of the agency's problems] are very broad patents that can cause a lot of mischief." Adds Chisum, "The PTO has a quality-control problem."

From the looks of \$6 billion chip-maker Intel, few would guess that the U.S. patent system has run amuck. However, Intel is a company that has employed aggressive patent policing practices to gain marketing edge, and its new gray and blue Santa Clara, Calif., headquarters serves as testament to this fact. The building's cavernous lobby functions as a museum, showcasing Intel's scientific accomplishments and honoring its heroes. The company's patented achievements, some of the country's technical crown jewels, are enshrined in Plexiglas cases for visitors to admire.

Etched on the wall among the other displays at the museum is a statement made in 1970 by Robert N. Noyce, an Intel founder and semiconductor pioneer. It reads, "Don't be encumbered by history—go off and do something wonderful."

Noyce did just this when he and seven other engineers defected from Shockley Semiconductor Labs in 1957 to form Fairchild Semiconductor in Mountain View, Calif. Their work at Fairchild revolutionized the electronics industry, but Noyce was not content to stop there. He did "something wonderful" again in 1968, this time leaving Fairchild to create Intel.

Joining Noyce in the new venture were Fairchild defectors Gordon E. Moore, who would become Intel's chairman, and Andrew S. Grove, now Intel's CEO. Dozens of others followed them. Altogether, recalls a former Fairchild assistant patent attorney, some 70 to 80 people were gleaned from Fairchild's ranks to fatten those of Intel. Adds the lawyer, "And a lot of their ideas went with them too."

But Fairchild didn't sue Noyce, Moore or Grove. That wasn't considered the sporting thing to do. Nor is it likely that Fairchild would have been able to enforce its patent case anyway. Cases at the time were litigated in various federal

district courts spread throughout the country; some were far more likely to uphold a patent's validity than others. Their standards varied wildly.

This wasn't necessarily bad for some U.S. industries, the semiconductor industry among them. "A weak patent policy did not slow things down in the development of the integrated circuit and microprocessor," Merges observes. "In fact, it sped things up. The legal environment of the 1970s allowed Fairchild, Intel and others to get their start, carrying the lesson that strong patents for every industry are not always good."

These new technology companies further thrived in the 1970s by embracing a policy of broad, long-term technology cross-licensing, an industry custom that prevailed for more than 20 years. Cross-licensing allowed companies not only to share their technical innovations but to use each other's technologies. It was a good deal. It kept everyone out of court and gave everyone access to technological advances. It also provided innovators with returns for their efforts through a reasonable royalty, typically one percent of the market value of the products made from the patent. A Palo Alto, Calif., patent lawyer, William L. Anthony, Jr., sums up the period this way: "Companies wanted to battle in the markets, not the courts."

But that mindset vanished in the mid-1980s as a number of external developments collided to make high-tech litigation more attractive. For starters, the Reagan administration's laissez-faire antitrust attitude took hold, making it more acceptable to adopt strong-arm litigation tactics to enforce patents. Legislation was also passed that signaled increased interest in protecting intellectual property: The Computer Software Protection Act of 1980 defined software under the Copyright Act, and the Semiconductor Chip Protection Act of 1984 protected some patented chip designs, such as DRAMs (dynamic random access memory), that had been ripped off by Asian competitors.

Still, the high-tech run on the courthouse would not have occurred if the U.S. Court of Appeals for the Federal Circuit hadn't been established in 1982 to handle patent appeals. The court streamlined the appeals process by

Retirement Act for Patent Lawyers

TWENTY YEARS AGO, Roger S. Borovoy was an in-house patent counsel at Fairchild Semiconductor, Mountain View, Calif., whose main job was keeping the company out of court. Today, Borovoy's mission is the opposite. Thanks to a legal environment hospitable to intellectual property lawsuits, Borovoy, now at high-tech law firm Brown & Bain, Palo Alto, Calif., often counsels companies on courtroom strategies. It's steady, high-billing work, and Borovoy is thrilled about it. "It's like a retirement act for patent lawyers," he says.

Indeed. While it's not clear if this high-stakes litigation is good business for the electronics industry, it's done wonders for the legal profession. Law firms like the work because it is recession-proof and lawyer-intensive. Complex intellectual property cases sop up extra associates, paralegals and even partners who would otherwise be idle due to the downturn in the economy.

Intellectual property lawyers are so hot these days that large, full-service firms from coast to coast are scrambling for talent, paying top dollar to lure the once-ignored, low-paid specialists away from old-line patent firms.

The result? Once-venerable boutique practices like New York City's

Fish & Neave and San Francisco's Townsend & Townsend have been wrecked by partner defections, and anyone carrying a high-tech credential can expect to see his or her income soar. A mid-level intellectual property lawyer at a major firm pulls down \$300,000; top draw is more than a cool half-million. Firms that can't find experts, meanwhile, are retooling their own, hoping to turn today's product liability or antitrust lawyers into tomorrow's high-tech legal scholars.

Are lawyers, thirsty for billings, prolonging disputes between electronics rivals? Some practitioners believe so. "The amount of litigation has gone up, and it's become drawn out because some lawyers are, shall we say, more creative in looking at intellectual property on behalf of their clients," says William L. Anthony Jr., who joined Brobeck, Phleger & Harrison, Palo Alto, after being lured away from Townsend & Townsend two years ago. Adds Morrison & Foerster's Michael A. Jacobs, "There is a lot of self-interest among patent lawyers who sense they are on a gravy train. The work is enjoyable. It's high paying."

That may be true, but it is still the industry that hires the lawyers. One of the biggest legal employers in the valley is superlitigious Intel Corp., of course. Says one happy beneficiary of Intel's litigation, "For many of us in Silicon Valley, Intel is our own cottage industry."

establishing a unified standard that had been lacking. Curiously, the electronics industry's outcry over the need to protect intellectual property seems to have had little, if anything, to do with the creation of the circuit court. Rather, it was a pet project of Carter administration Attorney General Griffin Bell that was later shepherded through Congress by Senator Edward M. Kennedy (D-Mass.).

The circuit court's stated intent was to create a uniform, streamlined venue for patent challenges. The Carter administration was also worried that the U.S. was lagging behind other industrial nations because innovators, disillusioned by weak patent protection, had stopped creating things. Thus, the court's "not so hidden agenda" was to be pro-patent, says Boston University professor Merges. "The original judges who sat on the federal circuit court had a political mission," adds lawyer McElhinny. "They were picked for their pro-patent views, and they ruled on them with a vengeance."

The new court quickly showed its stripes. In 1985, it ruled in favor of Polaroid in *Polaroid v. Kodak*, eventually awarding the company almost \$1 billion in damages and interest. The decision also tossed Kodak, the infringer, out of the instant photo business.

Out With Cross-Licensing, In With Litigation

This didn't go unnoticed in the legal department of Dallas-based Texas Instruments Inc.

TI had been a bright light in the electronics industry for dozens of years. It created and patented the integrated circuit, the first handheld calculator, the first commercially produced transistor radio and even the first single-chip microprocessor, an innovation wrongly associated with Intel. But by the early 1980s, TI was in terrible shape. It was reeling from increased domestic competition and laboring under poor marketing decisions. It had also been crippled by Asian manufacturers' dumping of cheap, cloned DRAMs on world markets.

But lawyers and the courts provided a cure for TI's ills. "Texas Instruments was the first to notice the changed environment, in terms of the value of patents, that was brought about by the

There is no way to quantify the degree to which litigation douses the spirit of entrepreneurship or hampers technical innovation. There are no numbers on those who didn't invent.

federal circuit court," says Merges. Melvin Sharp, former chief patent counsel for TI and principal architect of the company's patent strategy, remembers, "For years we had a legal environment that was so weak that we couldn't enforce patents. That had materially changed by 1985."

In 1986, TI embarked on a campaign to capitalize on this new environment, demanding high royalties on its patented products. The new premiums were, in some cases, 10 times the old royalty rate of one percent of the market value of the products made with the patents.

The campaign marked a risky break with industry tradition, but TI was betting that, thanks to the new court of appeals, more money could be made by suing than cross-licensing. "The value of patents was clearly going up in the courts, making the incentive to cross-license go down," Merges explains. "That would mean leaving too much on the table."

Richard L. Donaldson, current chief patent counsel for TI, puts it this way: "We had companies coming into the industry who were not innovating.



They were not investing in R&D. They were just copying technology. They could not return the same value on a cross-license as companies that contributed to innovation, so we had to come up with another way."

TI flexed its litigation muscle in 1986, suing nine Asian companies in U.S. federal court and before the International Trade Commission for infringing on some of its DRAM patents. The nine—Hitachi Ltd., Oki Electric Industry Co. Ltd., Fujitsu Ltd., Samsung Co. Ltd., Toshiba Corp., Matsushita Electric Industrial Co. Ltd., NEC Corp., Mitsubishi Electric Corp. and Sharp Corp.—were targeted to pay the high royalties because they could afford to. When they refused, TI sued.

And TI won. The nine defendants eventually gave in and paid up, though it took more than three years, 29 law firms, nearly 350 lawyers and an estimated \$10 million (TI isn't saying) to get the desired result. Was it worth it? You bet. The company's aggressive royalty program has put more than \$1 billion into its coffers since 1986 (almost \$260 million in 1991 alone), and has sopped up the red ink on its balance sheet for the last seven years.

Consequently, there's no end in sight. In 1990, TI sued five domestic chipmakers—Analog Devices Inc., Cypress Semiconductor, Integrated Device Technology Inc., LSI Logic Corp., and VLSI Technology Inc.—when they refused to pay increased royalties. At issue are fees paid on a patent covering the dollop of plastic in which some chips are packaged, an intellectual property TI contends is so dear that it felt compelled to go to court. Others see it differently. Roger B. McNamee, a Silicon Valley investor and high-tech stock analyst, calls TI's legal claim "complete horse pucky."

TI is also trying to force its PC clone manufacturing customers to pay, for the first time, royalties on some of its patented computer "system" chips that enable the machines to interact with printers and keyboards and to perform other functions. The tariff could be up to three percent of the cost of the computers containing the patented systems—up to \$30 per machine. At least one of TI's PC customers, Tandy Corp., didn't take kindly to the gesture. After a series of legal wranglings that includ-



A competitor can win a case, but it doesn't matter because it took five years to litigate the claim. By then, the market has moved on and the new company has lost out.

ed faulty license agreements, infringement charges and countersuits, the case was settled.

"We realize some companies feel our fees are too high," says Donaldson. "But that's because they've never had to pay for using our technology before. We have spent millions—billions—on R&D, and we need to protect that investment to get a fair return on our intellectual property for our shareholders."

Hogwash, cries Cypress Semiconductor's Rodgers. "It's hard to listen to such high-blown intellectual property rhetoric when a company is putting a billion dollars in the bank."

Intel Doesn't Always Win—Does It Matter?

F. Thomas Dunlap, Jr., Intel's general counsel, isn't well liked in the chip business as a result of the company's lawsuits, but he doesn't much care. A smallish, balding, brilliant lawyer, Dunlap is the perfect front man for CEO Andrew Grove's front office, shrugging off criticism and chalking it up to business sour grapes. "If Intel wasn't doing so well, no one would care about its

lawsuits," he says.

Dunlap says Intel sues only companies that steal or infringe on its intellectual property, companies Intel calls "copycats." Strictly speaking, infringement is defined as copying a patented invention outright—not too difficult to accomplish since the patent office publishes the invention. At issue in many infringement cases is whether inventions are duplicated or achieve the same functionality through a different design.

"We won't cross-license copycat companies like Cyrix that make an imitation of our product, who don't spend anything on R&D," says Dunlap. "This kind of company comes into the market saying, 'The closer I get to Intel, the less business risk I have. I have no R&D costs, so I can lower my price and win.' But what we've said is, 'If a company does business this way, it will have an increased legal risk.'"

"We do not sue companies that contribute to the industry through R&D," he adds. "If we both innovate, then we both add value. But R&D is a

bigger investment risk than ever. Our first fab [fabrication facility] cost \$1 million. Now a fab costs \$1 billion, so we can't give our innovations away. We have to protect our shareholders' investment, which is allowed by the U.S. Constitution."

Semiconductor analyst Thomas A. Thornhill III, like many on Wall Street, applauds Intel for its trusteeship of the industry's inventions. "It is absolutely critical to U.S. competitiveness to protect our intellectual property," says Thornhill, of Montgomery Securities, San Francisco. "It is important to protect the value of R&D funded by shareholders."

Still, Thornhill suspects Intel isn't always doing just that—Cyrix being a case in point. "I don't believe Cyrix is copying Intel's chip," he says. Cyrix board member and former TI lawyer Melvin Sharp adds, "We were careful to avoid Intel's patents. Cyrix is not a copycat." The company says its product is an original design that achieves the same functionality as Intel chips.

Nevertheless, Cyrix has been fighting Intel on that point for two years. A sizzling startup in the coprocessor market—it captured 20 percent of the market in its first year and generated \$25 million in revenues—Cyrix made one critical error: It claimed its chips were "100-percent compatible" with those from Intel. This fueled Intel's fury. "We knew we were in the wrong, and we said we would stop [using compatibility] slogans," says CEO and president Jerry Rogers. "But they also asked us to get out of the [coprocessor] business. We couldn't do that because at the time, that was our entire business." Intel subsequently played hardball with the startup, threatening to sue its Taiwanese supplier if it sold product to Cyrix, among other tactics. So Cyrix hired a team of lawyers. "We knew that Intel would use the legal system, so we felt we should get there first," Rogers explains. Cyrix filed an antitrust claim against Intel in December 1990; Intel sued for patent infringement just 15 days later.

When Intel Doesn't Sue

TALK TO Dr. Chi Shin Wang and his colleagues at Integrated Information Technology, and you find that it is possible to barge in and outperform Intel processors all over the board without arousing the prurient interests of Intel lawyers.

According to Wang, most of the companies that crashed into court in the math coprocessor business were victims of an inadvertent Intel bait-and-switch. When John Palmer's Intel coprocessor patent application failed because it included ideas from an IEEE floating-point standards committee that he chaired, Cyrix et al. jumped to the conclusion that the coprocessor market was an open front. But Intel pruned its claims and refiled successfully. By that time, Cyrix, ULSI and the others were off to the races with infringing chips.

Started by Wang and other defectors from Weitek, the high-end coprocessor king, IIT decided not to clone the Intel part but to clobber it technologically, while still offering 100-percent compatibility. Beginning in 1987, IIT's engineers devoted some two years to duplicating every Intel 287 and 387 floating-point coprocessor function from scratch with entirely new algorithms. On release, the IIT chips ran an average of some five times as fast as the 287 and nearly three times as fast as the 387 without even the hint of infringement. IIT marketer Vivie Lee explains, "You can patent a mechanism but not what it does. You can't patent merely 'something that executes a specific code.'"

By 1993, IIT commanded between 10 and 15 percent of the math coprocessor market. It is completing a 486 project

that also promises 100-percent compatibility without using any Intel technology. At the same time, IIT has virtually driven Intel out of the high end of the market for programmable image-compression chips. Intel announced a competitive device called V-3 with PictureTel and then abandoned it as IIT took some 50 percent of the design-ins for video conferencing. For image processing, IIT has now filed several patents of its own. Beyond the Intel repertory, IIT also produces a Windows accelerator graphics chip that has won a series of important design-ins led by Hercules.

Although Wang believes that Intel has occasionally been too quick to sue rather than settle, he maintains that the company is defending a solid patent position. Lee contrasts Intel with Stac Electronics, which last June launched a splashy patent suit against IIT's lossless data-compression processor before anyone had even seen a chip. The suit collapsed, but not before helping to sour the market for the IIT device. Wang says that he worries more about these fanciful suits from out of left field than about suits by companies like Intel. As for the Japanese, now depicted as the new patent trolls, Wang believes that for political and cultural reasons they are taking a merely defensive stance.

Talking to Wang and others, one gets the impression that the patent threat is overblown. The real problem may be excessive readiness by the patent office to grant protection for trivial advances, such as Texas Instruments' encapsulation glue, or for overly broad concepts, such as burst-mode video transmission, that fail to pass the nonobviousness test. In the U.S., there is clearly an egregious excess of litigation of all sorts, but patents may be the least of it.

The legal rigmarole has cost Cyrix, a profitable but still private company, several million dollars, plus "every day we have given it," says Dennis J. Gorman, a partner in Sevin Rosen Funds, a venture capital fund that backs Cyrix. So consuming was the litigation that Gorman left Dallas-based Sevin Rosen for 18 months to manage the lawsuits for Cyrix. "Litigation is very devastating for a small company from a time-and-energy point of view," he says. Adds CEO Rogers, "Intel has kept us in court and in depositions. I've been in two depositions in the last 90 days. Our vice-president for engineering has been up [to court] four times."

Yet it's effective, even when Intel doesn't win. "Intel has a pretty miserable record in court," observes patent litigator Anthony. "But as a business policy, its legal strategy has been a big winner. It has managed to keep competitors tied up in court and entrepreneurs away from the field. That's why we do not have a third, fourth or fifth generation of chip companies in this country. Intel has scared entrepreneurs to death."

Adds a San Jose lawyer who has fought Intel and won but nevertheless declines to be named, "A competitor can win a case against Intel, but it doesn't matter because it took five years to litigate the claim. By then, the market has moved on and the competitor has lost out."

Competitors also cried foul last fall when Intel began threatening to impose a royalty on computer manufacturers who use "system" chips patented by Intel. The program is similar to the controversial one underway at Texas Instruments, with one exception: TI is demanding royalties from all of its targets, while Intel plans to command a steep royalty—as much as \$25 to \$30 per computer—only from computer-makers that use competitors' chips. Manufacturers that use Intel's chips get what Dunlap calls "an automatic license," meaning that no royalty is required. Says Dunlap, "This is not about antitrust; this is about making no-name clonemakers, who have no intellectual property, pay."

Nevertheless, Advanced Micro Devices promptly sued Intel for antitrust violations, and Cyrix, in a motion filed in its pending suit with

The American Way—As It Used to Be

Name	Left	To Start
Gordon Moore Andrew Grove Robert Noyce	Fairchild Semiconductor	Intel
Jerry Sanders	Fairchild Semiconductor	Advanced Micro Devices
T. J. Rodgers	Advanced Micro Devices	Cypress Semiconductor
Rodney Canion	Texas Instruments	Compaq Computer
John Warnock Charles Geschke	Xerox PARC	Adobe Systems
Finis F. Conner	Seagate Technology	Conner Peripherals

Intel, appealed to the court to bar the giant chipmaker from collecting fees from Cyrix customers. "We think this is a direct violation of the antitrust laws," says Thomas B. Brightman, co-founder of Cyrix and its vice-president of business and technology. "This is just another way for Intel to intimidate us and our customers."

Intel is undaunted by such accusations and even its losses to courtroom competitors. Dunlap compares Intel's legal record to that of the Denver Broncos in that ball club's bid for the Super Bowl: You can't win 'em all. But the Broncos would never have gotten to the Super Bowl if they lost as many critical games as Dunlap has. Intel was defeated in the first round of its patent lawsuit with Cyrix, for example, and it has an uneven track record against rival AMD, suffering a key loss two years ago in a case over its numerical denotation for chips, which has allowed AMD and other competitors to use Intel's 386 and 486 terminology. (Intel dubbed its latest chip Pentium rather than 586 so that its trademarked name could not be used by anyone else.) To be fair, Intel has licked AMD too. The latest victory came last December, when a judge expanded a ruling barring AMD from using one particular Intel chip microcode to include use of any of Intel's microcode.

With each round of litigation, the

war heats up, ensuring that the feud will continue.

There isn't any way to quantify the degree to which litigation influences entrepreneurship or hampers technical innovation. "There are no numbers on those who didn't invent," observes Boston University's Merges. "There is no record of the venture capitalists who haven't funded innovative companies. Those of us who study the area have a suspicion that the intellectual property litigation boom may have had some negative impact."

Cyrix CEO Jerry Rogers is not merely suspicious of this; he's certain of it. "This litigation is the biggest detriment to innovation to come along in 20 years," he says. "Companies like Intel gave us so much innovation, and now they want to choke it off.... There is no longer an opportunity for a company like Intel to be created."

By the letter of our intellectual property laws, Intel makes a plausible case against that statement. But the intent of those laws may be perverted in the process. Says patent lawyer Anthony, "The patent as hammer, while permitted, was not intended to keep competition from doing its thing—that is, to improve a breed of technology." 

Nancy Rutter is an Atherton, Calif.-based freelance writer.

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**ASAP
INTERVIEW**

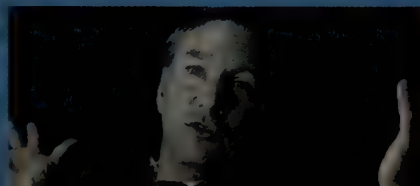
TOM PETERS

Tom Peters is passionate, profane, compulsive, controversial, outrageous, lucky, hugely popular and rich. Somehow he seems right for the time.

The now 50-year-old Peters burst on the national scene in 1982 when he and fellow McKinsey & Co. consultant Robert Waterman published *In Search of Excellence*. The book stayed on the New York Times bestseller list for 3 years and sold more than 2.5 million copies, making it the best-selling management book of all time. Peters attributes the phenomenon to luck. "It was a garden-variety great product that for a thousand reasons outside our control caught everyone's fancy."

In *In Search of Excellence* dissects and analyzes companies and managers that thrived despite the malaise of the Carter years. Hewlett Packard, Federal Express and Lockheed's skunkworks all seemed to provide the same lesson: Excellent companies were passionate, focused, close to the customer and unafraid of risk. They built messy prototypes and tested them fast, Peters reported—development advice that rings as true today. Colorful anecdotes and high-octane commentary filled the book. *In Search of Excellence* was widely praised, but drew notable critics as well. Peter Drucker derided it as a book for children.

Propelled into celebrity, Peters left McKinsey and set about building on his success. Peters appears to be one cobbler who shoes his children: he has managed his own career spectacularly well. Three books have followed *In Search of Excellence*, including last



year's 768-page tome, *Liberation Management*. There is also a consulting arm called the Tom Peters Group, a public television series that shows Peters lecturing audiences in his feverish, evangelical style and a syndicated newspaper column.

Facts about Peters: He has an undergraduate degree in industrial engineering from Cornell and an M.B.A. from Stanford. He lives on a 1,000-acre farm in Vermont with his second wife and two llamas. He periodically fights a tendency toward stoutness, and his weight is known to fluctuate dramatically. He charges up to \$60,000 for a day's seminar. On stage Peters paces and sweats profusely, losing up to six pounds in two hours. Although a free-market enthusiast of the F. A. Hayek type, he is also a \$1 million donor to the ACLU, and he voted for Bill Clinton.

ASAP spent several hours with Peters. We were startled to discover that he is even less inhibited in person.

ASAP: What evidence do you see that the world is going bonkers?

PETERS: That you and I are having this meeting.

ASAP: Now that we're clear on that, how much more bonkers can the world get?

PETERS: Oh, it's barely started. There is a part of me that, honest to God, is sort of half happy that I'm not going to be alive for the full impact of the biotech revolution. There's got to be a minimum 50-50 chance that whatever the hell comes with biotech is going to make today's world look absolutely like child's play.

ASAP: Child's play in what sense?

PETERS: I don't know what the hell that means. But there are just totally freaky technologies over the horizon that cannot be controlled by humankind. It's that old problem with the brain. The brain has got its two halves. One half does a pretty damn good job of thinking logically. The other half is still back in the cave. When the cave half gets ahold of biotech, you needn't have large reactors to create plutonium to destroy the world. To imagine that we will behave in an intelligent and adultlike fashion is optimistic, to put it mildly. It's freaky.

ASAP: Freaky?

PETERS: Oh, yeah. Absolutely freaky. Incidentally, I think it's important to use words like "freaky" and "weird" and "bonkers" rather than "a time of dramatic change." Language has to have the same heat that the times do. I worry about that all the time. Alvin Toffler says, add it all up and there is a need to reinvent civilization. Thanks to technology, the world is going bonkers. And it's going to get more bonkers—bonkers squared in a few years with bonkers cubed on the way.

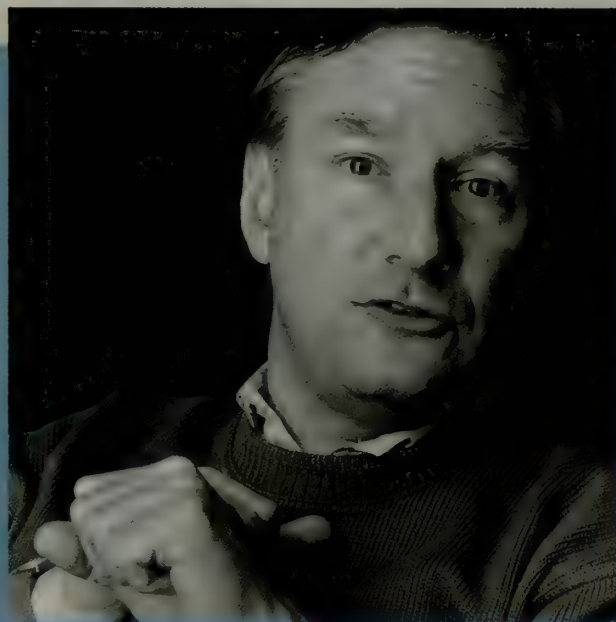
ASAP: How fast will this brave new world of bonkers cubed arrive?

PETERS: There's a strange dichotomy out there. On the one hand, we've got [George] Gilder's world where all messages are sent to everybody simultaneously. On the other hand, the Hyatt Regency in modern San Antonio has not figured out how to monitor individual-room water temperatures. All of us get the same cold and the same hot in 350 rooms at the same time. Far out for the Hyatt is to figure out how to control water temperature. Even when Hyatt figures it out, there remains the human element—that other side of the brain. I came down here [to San Antonio] to speak to a thousand bankers. On the one hand, they are on the bonkers end of banking, which is an information-technology business these days. On the other hand, they are all still wearing goddamn black suits; they are the most conservative people in the world. You see the sentimental tears in their eyes about the notion of the marble bank

edifice and the old tight collars. When I talk to stiffies like this, I naturally like to throw in a lot of smart-ass remarks and see what happens.

ASAP: What does happen?

PETERS: One of the smart-ass remarks that I typically make in a seminar has to do with Hewlett Packard, a company I respect in many ways. My comment to people is, Hey, look. In Silicon Valley,



Thanks to technology, the world is going bonkers. And it's going to get more bonkers—bonkers squared in a few years with bonkers cubed on the way.

say you're a 37-year-old engineer who graduated from MIT at the age of 21. You worked for HP for 16 years. Now you decide to apply for a job at Sun Microsystems. Some friend told you it was interesting. The Sun recruiter looks at your resume and says, If you're so good, why in the hell did you stay at HP for 16 years? That gets a knowing nod in Silicon Valley or Seattle. In Philadelphia, to a bunch of senior naval officers, I could have been speaking Swahili when I said that same line. There were two reactions: One was cold sweat from a few—and that's terrific. The other was absolute incomprehension of what the hell I was saying. It's this dichotomy between fiber-optic messages and stupid Hyatt showerheads.

ASAP: As a lover of free markets, why

did you throw your hat in with Clinton?

PETERS: I voted for Bill Clinton because I wanted to see no more Clarence Thomases on the Supreme Court—and I'm half scared witless of Clinton's economics. At least I think Clinton and his pals have some idea that we are entering the 21st century.

ASAP: Why are you half scared?

PETERS: What concerns me about Clinton are his pals like [Labor Secretary] Bob Reich. Bob has this idea of collective entrepreneurship. This seems to me to capitalize the "C" in collective and not the "E" in entrepreneurship. I mean, Reich just goes on the diatribes: no room for the individual; John Wayne is an asshole; the notion that the great man or the great woman is bull. Science is all done now in big groups and so on. Sure, you'd be an idiot not to be in favor of more teamwork and more collaboration. But that's not the point. The essence of Silicon Valley, the essence of every revolution, is people who gather teams around them—whether it's military teams, football teams of the Bill Walsh sort, Wal-Mart, CNN, Microsoft. These people are somewhat bigger than life. In the best and, hell, even in the worst sense, they get you to buy into their bizarre act. But Bob Reich doesn't believe this. He has, if not a strong anti-entrepreneur-

ial bias, certainly a strong anti-entrepreneur bias. And it gets worse. Derek Scherer, who is Reich's colleague, believes in some things that are downright dangerous. I've been saying to people, which is a half-assed statement, that it's very clear to me that the information technology revolution is going to bring its Marx.

ASAP: Really? Do you see any on the horizon?

PETERS: Maybe it will be Derek Scherer. Maybe it'll be, God help us, Bill Clinton, the supposedly pragmatic Democrat. But there's no reason to think that we won't get an equally potent figure who will lead. The freaking problem is that you can change technology in 20 or 30 years, but you can't change that other side of the brain so quickly. It's going to be a

dicey 20 or 30 years. The new technologies have caused the transition.

ASAP: We've been indulging ourselves in politics. Let's talk about how much more bonkers the world of corporate organizations can get.

PETERS: Well, it's barely started. Everybody writes how we're flattening our organizations. What a crock! Maybe the ASAP part of *Forbes* is flattened, but Bank of America, General Motors and Sears still have a long way to go.

ASAP: The Sears Tower makes an interesting visual metaphor for a rigid hierarchy, doesn't it?

PETERS: Oh, it's perfect. Particularly because the Wal-Mart non-tower is precisely the alternative metaphor. It's wonderful how these coincidences occur. The Wal-Mart "tower" and the Limited "tower" are both two stories high, and both of them caught Sears in the pincer movement: The Limited was symbolic of the specialists that nailed them; Wal-Mart was symbolic of the generalists that nailed them. Both came out of nondescript towns and squeezed the 100-story tower. But in terms of the "bonkers organization" or whatever you want to call the thing, that's still 20 or 30 years away. We still will be going through that transition in the year 2015.

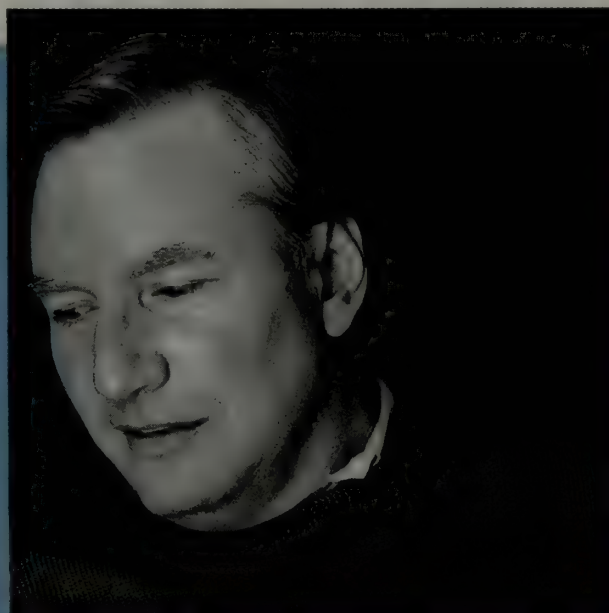
ASAP: Do large companies have a chance in these hyperbusiness times?

PETERS: I'm willing to believe there is such a thing as viable big enterprise, but it's got to be an enterprise that in fact uses the new technology so that it doesn't accumulate all the crap that goes along with becoming large, which to some extent Wal-Mart has done. And that's a cultural problem more than anything. Look at Boeing versus Airbus. A huge history exists among tens of thousands of engineers at Boeing that hydraulic lines are next to godliness—hell, they're one above godliness. On the other hand, the notion that you can control an airplane with an electron doesn't scare Airbus witless because they started up that way and have no other benchmarks. That just so fascinates me, the notion of once a dinosaur,

always a dinosaur, to use a metaphor in a really second-rate way.

ASAP: Does that mean we should give up hope on dinosaurs?

PETERS: Well, again, my standards are high. Irrelevance to me is a lot worse than death. Death would be kinder. And certainly, it's very hard to kill a Boeing; it's very hard to kill IBM; it's apparently even hard to kill a GM. But the question



I'm willing to believe there is such a thing as viable big enterprise. But it's got to be an enterprise that uses the new technology—it can't just accumulate all the crap that goes along with becoming large. And that's a cultural problem.

is, will it lead anybody anywhere in the future? In that sense, one can't be very hopeful.

ASAP: What would you do if you were on IBM's board? Do you ever dream about running IBM as some people dream about batting cleanup for the Yankees?

PETERS: Nightmares, you're talking nightmares! What I would do if I were on IBM's board, for starters, is something very simple. I don't know if the number would be magic 13 or whether it would be 20 or whether it would be 6,

but I would break the damn joint up. Pure and simple.

ASAP: They've already done that.

PETERS: They've got to go further! I would sell partial or total ownership in large pieces of the thing to the public. There are bits and pieces of IBM that I might be interested in buying some shares in. I'd no more buy IBM stock or General Motors stock than fly to the moon. I don't envy those guys and their tasks. I'm sure [former CEO John] Akers is a good guy, but, jeez, what a burden, what a personal burden. Can I tell you an IBM story?

ASAP: Be our guest.

PETERS: I have this friend, Paul, who was a "60 Minutes" producer, 20 years' duration, and he was just up in Armonk [N.Y., IBM headquarters] five or six months ago shooting something with Jack Kuehler [former president and now vice-chairman]. Kuehler is apparently a smart guy who was actually able to answer questions. But when my friend arrived, Kuehler's minions, still numbering in the freaking dozens, had prepared answers on big cards for the guy to questions like, What company do you work for? But that wasn't the most telling. This is late 1992. We know the crap that IBM has gone through in 1992. You've been around the media industry for a large share of your life. You know the kind of vans that independent media guys drive. They've got Grateful Dead stickers all over them and every other goddamn thing. Paul's guys moved in. IBM had given them some kind of park-

ing pass right in front of where the big shots work. So up drives Paul's van to shoot Kuehler, and it was a typical dilapidated independent film crew van. At some point early in this process, one of the many minions came running out to see Paul and said, You are going to have to have that van moved. Paul asks why. The minion said, Because it is inappropriate for our senior people to see this thing out the window. Inappropriate! That's sick. It's unbelievable.

ASAP: And that adequately explains IBM's current problems?

PETERS: It explains a lot. Those little anthropological tip-offs are as interesting as the innards of the technology in watching this great historical transition take place.

ASAP: As a well-traveled amateur anthropologist, which regions of the country do you think have the right formula for technology success?

PETERS: In this age of brains, people will go to places where there is a good quality of life, clean air, where the K-through-12 system is functioning—there's no question about it. Now, if I were a young engineer on the make, I would head straight to Silicon Valley. There still is a density of engineers and entrepreneurs and venture capital that can't be matched anywhere else.

ASAP: Big problems, too: escalating California taxes and regulations, cost of living, traffic. Talent is leaving.

PETERS: But again, Silicon Valley has molecules bouncing around that add to the creative tension. As far as talent goes, one of Silicon Valley's great secrets is stealing human capital from the Third World. Maybe the natives are leaving. That is more than made up for by Indians and Taiwanese coming in.

ASAP: What other regions do you like?

PETERS: Texas. It feels alive. I well remember in the wake of OPEC I and OPEC II sizable numbers of pals who were \$50K- or \$60K-a-year professors at Cornell or maybe even Stanford being recruited down here for M.B.A. kinds of salaries, and when the oil money was pouring through the University of Texas system. Texas was really smart with that oil money. It's a strange American thing. On the one hand, this Brownian motion, this wildness of entrepreneurship, is phenomenally important. On the other hand, given what drives economies these days—that is, technology—clearly of parallel importance is the collegiate environment. Simple, hard-boiled, it's called research university—which is different than university without the adjective.

ASAP: Intellectual capital and a spirit of enterprise. Are those qualities bound by

geography or can they exist in virtual communities as well?

PETERS: That's an interesting debate. I may take a great step back into the past with my next book because I really want to focus on physical factors. The power of an electronic network to access data is becoming phenomenal. On the other hand, it really bugs me when Nicholas Negroponte [head of MIT's Media Lab]



The problem with technology in corporate America is that uptight organizations create uptight protocols for their E-mail systems. Half-assed organizations create half-assed protocols, and it works.

says that in the future we will be able to tap into the information streams we want. That is so damn wrong.

ASAP: Why? That sounds like the fulfillment of every computer user's dream.

PETERS: The essence of scientific creativity is unexpected streams of information crossing each other in oddball ways at propitious times. Being organized about information collection is fascist. There is something in the process of walking through the library stacks and having your eye accidentally light upon some 13th-century treatise that gives you the answer to your conundrum in quantum mechanics. It's that exposure,

those eclectic exposures. I mean, find me a truly significant innovator who doesn't have some form of significant eclecticism. It's a delight to hear that John Sculley and Bill Gates read—and not only the stuff they are supposed to read but a lot of stuff they are not supposed to read.

ASAP: You argue in *Liberation Management* that people learn more from random junky E-mail systems than from those narrowly designed by companies to filter out unwanted data.

PETERS: The problem with the application of information technology in corporate America is that uptight organizations create uptight protocols for their E-mail systems. Half-assed organizations create half-assed protocols, and it works. So once again we have the umpteenth piece of proof that the nuts get richer and the bozos get poorer. How you organize chatter should be a big part of any reengineering effort.

ASAP: Doesn't E-mail do that?

PETERS: E-mail is great, but only if you permit people to write messages with typos and don't go back and correct something that's supposed to be loose. That's a deep cultural thing. People in an uptight company will write a letter-perfect E-mail message and go back and add a couple of misspellings to look loose. There is a story that Jack Welch of GE, when he took over, was appalled by the amount of time people spent making charts for presenta-

tions. So Welch sent down an edict that all charts would be hand-drawn. Then he discovered to his dismay that people were going through all the same rituals, and on the last night before they were to come visit him, they would take the super-prepared charts and draw them over in handwriting. Welch realized he couldn't solve the problem by edict. He had to change the uptight culture.

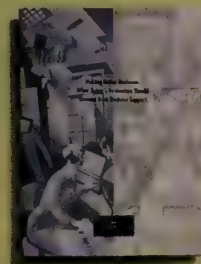
ASAP: Should all information in an organization be made available to all employees?

PETERS: Yes, that's correct—within limits. I'm using a little poetic license. Obviously there are issues involving

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M E T A P H O R

SEC filings and patent applications that it would be illegal to share, but basically, at the level relative to the people that I am writing for, all information should be shared.

ASAP: Including salaries?

PETERS: I don't see why the hell not. My hypothesis about salaries has always been that if people don't know what other people's salaries are, the things they imagine are a lot worse than even the worst inequities. How we are valued in the marketplace is damn important data. I don't see the difference between publishing your salary, my salary, a receptionist's salary, and publishing Michael Jordan's salary. If you want to be employable as a receptionist, you better be in the top decile of receptionists or wonder why. I think salary information is an indicator of how the market is treating you. It makes sense for the individual, and I think it definitely makes sense for the company, because my theory has always been that if publishing salaries embarrasses you, then there is probably a reason to be embarrassed, so you ought to do something about it.

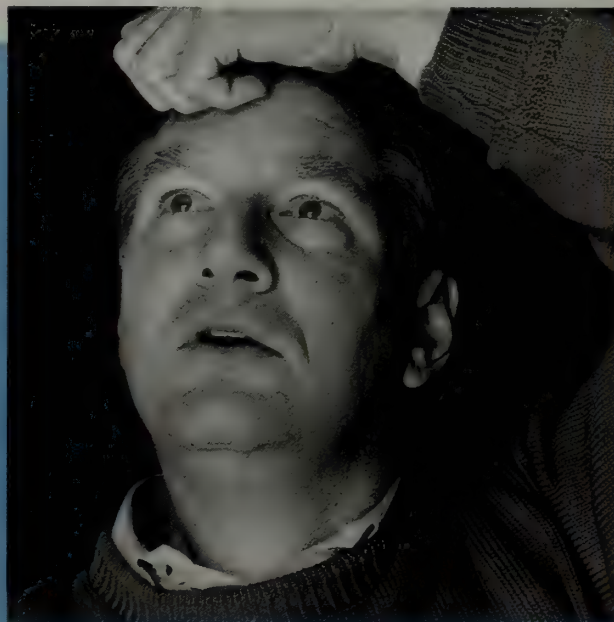
ASAP: Will the knowledge age create a tyranny of the smart? Some think so.

PETERS: I dedicated *Liberation Management* to these two teamster guys who hoist hoses, Tom Strange and Joe Tilli. I have no idea what IQ Tom or Joe has. It's probably not 175. It sure as hell isn't 95. They are very decent, thoughtful, intelligent people who can handle 95 percent of Bob Reich's symbolic analysis tasks. I think a large share of the population is up to this. Tom and Joe say to me that if there's an emerging tyranny, it's because managers are assholes and haven't allowed the Toms and Joes to do intelligent tasks. The average company treats them like ninnies because somewhere down deep they don't think they can do Perato analysis. That's the real tyranny of our time. I don't think it needs to happen. Maybe we will work our way out of it, but it's very troublesome.

ASAP: Still, a Bill Gates would tell you that a great software programmer may

be literally worth 100 or 1,000 times more than a merely good one. Won't salaries have to become more disparate to reflect the wide scattering of abilities in the knowledge age?

PETERS: The more interesting question is, Will there be, should there be, must there be more acknowledgment of these differences? I have no idea what Microsoft's policies are, but Apple and



The average company treats workers like ninnies because somewhere down deep they don't think they can do Perato analysis. That's the real tyranny of our time.

Intel have been willing to pay semi-NBA prices for super talent. I bet you that was never true at the Watson Labs or DuPont Labs in Wilmington. I don't even know whether it's good.

ASAP: But it's inevitable, right? For one, the knowledge age will widely scatter abilities. For two, everywhere one looks a free-agent system is replacing the old employer-employee relationship.

PETERS: I guess that's fair. It's just that, to give the other side its due, there's a fair amount of research on research activities which suggests that when there is more equity in pay there tends to be more research productivity.

ASAP: Are you talking about generic research productivity among 10,000 pro-

grammers or about the 25 superstars that Bill Gates says are critical to the success of Microsoft?

PETERS: Well, even in this new world of young Willie Gates' you've got to execute this crap, which Microsoft does. Don't we have the George Steinbrenner issue? Steinbrenner, with his infinitely deep wallet, proved beyond a shadow of a doubt that having 25 phenomenally

high-priced pieces of talent doesn't necessarily make you a winner.

The more interesting challenge for Gates is to find the little schmuck who is an honest-to-God nerd in 1993 who, either for Gates, or more likely for himself, is going to kick Microsoft's ass seven ways to Sunday within the year. The long-term test for Gates is, in a huge institution, not can he find 25 phenomenal people—he can—but can he create the structure where Microsoft breeds the next generation of superstars?

ASAP: How would you advise Gates and his peers to do that?

PETERS: The key is to create an environment that creates superstars who can become more important than the boss. Ted Turner is surprisingly good at this. Sonny Mehta at Random House is more important than his boss. More people in publishing know Sonny Mehta than know Alberto Vitale, who runs the joint. Now, at some level Microsoft is obviously a wonderful playpen. But if you

were, in your own mind, the software equivalent of Sonny Mehta, a creator of phenomenal hits, would you really be willing to subjugate your ego to Bill Gates' in what has now become an 11,000-person company? I don't think you would necessarily. I don't think you would, period.

ASAP: Then how do you create an ecosystem that breeds the next generation of superstars?

PETERS: This is going to sound half nuts, but I would submit that Stanford and other great research universities hold the key.

ASAP: Slow down here. Universities as a model for fast companies? If ever there was an institution with its head in the

sand, it's the academy.

PETERS: Yes, they're bureaucratic, and nobody likes the tenure system. But there's a lot to say for the tenure system.

ASAP: Including the fact that 80 percent of your tenured professors fell asleep 20 years ago.

PETERS: But the other 20 percent or 10 percent or 5 percent are independent—you can't touch them. They are free to do radical stuff, which is the essence.

As Gates says, you don't need to have a large share of the population doing violently creative things. The power of the tenure system is that it allows you to be totally wacky as long as it's not totally morally repugnant. And that's not a bad hand in today's environment.

ASAP: Again, this observation seems at odds with everything you hold dear. Nearly all of your writing talks about the need to blow the cold winds of the marketplace into every nook and cranny of an organization.

PETERS: Seems at odds? It is at odds. So what?

ASAP: You've slid pretty comfortably into that paradox.

PETERS: The world is a paradox! It's the Scott Fitzgerald line about the true test of a top-flight intelligence being the ability to hold two opposing ideas and still be able to function.

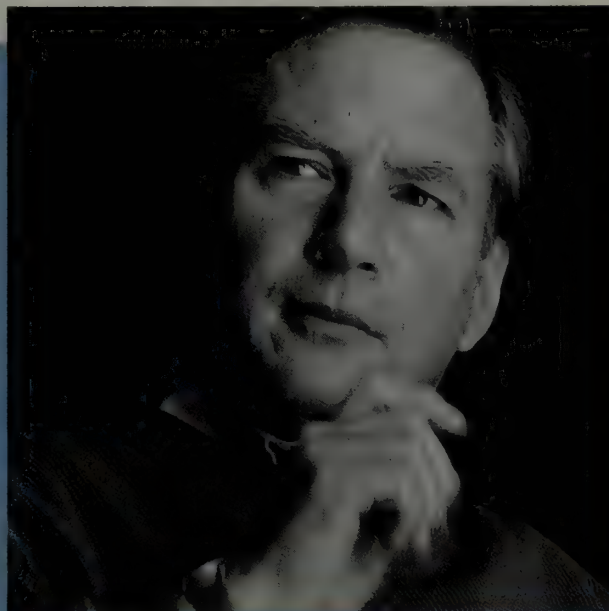
ASAP: A test which Scott Fitzgerald himself failed in a sea of booze.

PETERS: But, my God, he and Zelda had a good time in the process. Oh, my heaven! He did flunk it, but he passed the Oscar Wilde test: The only things one does not regret in the end are one's mistakes.

ASAP: Other-than academics, do you have complete faith in markets?

PETERS: You missed the point! There is a great market at work in the academy. There is no more violently competitive environment than the hotbed of the academic spectrum. It's a little bit like the double-helix thing. You'd pick a problem. You would probably work on that problem mostly in isolation for two or three years and, given the nature of discovery, the odds are moderately high that two to three weeks before your dissertation was submitted, some-

body in India would've solved your problem, in which case your dissertation would be dead and you'd have to start the whole goddamn thing over again. No, I believe in always leaning radically in the direction of the market as far as you possibly can. The reason I get up on stage and say such wild-ass things is because I think that most of our big companies are really lousy at it.



I never take the podium seriously. It's a little bit like this conversation. For whatever reason, I don't have any problem saying stupid things and thinking on my feet. I'll say any damn thing.

That's the goddamn scandal about the free market. Almost always, the last people who want to blow the cold winds of the market into every nook and cranny of the company are the people running the joint.

ASAP: Did you just wake up one day and decide that you wanted to be what amounts to a secular evangelist?

PETERS: Yes, I did.

ASAP: I assume they didn't teach you to stand up and preach at McKinsey.

PETERS: I don't know how it happened. First of all, it's uncomfortable to talk about because it's weird. Doing well on a stage I never thought about.

ASAP: You mean to say that you don't think about your stage act? That's hard to believe.

PETERS: The truth of the matter is, good one-liners come by trial and error. Some sentence accidentally pops out of your mouth and 1,000 people laugh. Given that we are all basically Pavlovian dogs when you get down to it, the odds significantly go up that you'll say it again.

That's the heart of the matter. I would argue that everything I do is different than everything else I've done, but there certainly is some level of continuity to it. I suppose a lot of it has got to be, if not genetic, at least socialization. My mother is one of the world's great talkers.

ASAP: On stage you appear to be entirely lifted by your own adrenaline.

PETERS: I never take the podium seriously. It's a little bit like this conversation. For whatever reason, I don't have any problem saying stupid things and thinking on my feet. You know, I don't give a crap whether there are 4,000 people out there or one—I'll say any damn thing. I have no sense of it. It could be the adrenaline. It's fascinating stuff, not because it's business; it's just that the whole damn thing is about human beings. This whole discussion we're having about Gates, and we could be talking about Sam Walton, is about this peculiar intersection of technology changes and human drama. That's why I say with dead seriousness that if

you want to understand business and run a business well, read Chekhov, not Drucker and Peters. I believe it. What you learn from decent novelists is the richness and the chaos. That's why I love markets, not because I was persuaded by F. A. Hayek's arguments, but because I'm persuaded by Chekhov and by Joyce and by Max Frisch and people like that. They're the ones that tell you life is a game of chance.

ASAP: When you implore CEOs to read novels, what's the kind of response you get?

PETERS: They don't even read my books. The problem I have with most

of my seminars, which is probably why I get more outrageous over time, is that not enough people call me an asshole when I say stupid things. That's the problem: I've got a problem with brain-dead people.

ASAP: It is said that you make up to \$60,000 a day. Why do you suppose people pay you that much?

PETERS: I would really be showing total false humility if I said that I've never reflected on it all. But I was thinking about it one time and my appeal, I think, in part is that I can get away with murder because I give a damn.

ASAP: Let's switch subjects. During the last 10 years, billions of dollars were spent on computers, yet white-collar productivity did not go up correspondingly. Why not?

PETERS: I agree with what Michael Hammer says about paving over cowpaths. I recently looked at productivity numbers from when the railroad came along. As you know, the railroad was integral to the Industrial Revolution because it gave us a network that allowed you to distribute things on a nationwide basis. The railroad was clearly the harbinger of maybe the greatest burst of productivity increase in the United States between, say, 1890 and 1910. But, down to the year, the first 40 years of the railroad, like the first 40 years of the computer, gave us the same totally screwed-up, ambiguous productivity figures—there was no improvement in the railroad either. Why? Because—back to Toffler—you have to reinvent society first. There were no factories that could deliver the order. There was not a distribution system. Eventually, the railroad led to the invention of department stores. But first you had 40 years when the country had to be reinvented before the power of this phenomenal network tool called the railroad could contribute to productivity. I suspect we're going to have—and I don't see how we can screw it up—we're going to see the same bloom, with the United States leading the way in the productivity statistics of the service sector.

ASAP: The job category called CIO

became popular in the mid-1980s, as companies sought to align corporate goals with technology's powers. But many of the CIOs failed. Why?

PETERS: Companies in the future will be shaped to a very significant degree by their ability to be visionary about the application of new technology. That's a given. BancOne, Wal-Mart, Federal Express, CNN are marvelous examples



Companies in the future will be shaped to a huge degree by their ability to be visionary about the application of new technology. That's a given.

of that today. They all have CEOs who are themselves their own chief technology officers, even though they have brilliant information technologists. Bob Crandall at American Airlines, for all its faults, has been a pioneer. Even if it's now backfired in a lot of important ways, that doesn't make him any less of a pioneer. The misfires in the mid-'80s were chief executive officers who kind of got the right idea that technology was damned important, but they couldn't have given a damn less about it themselves and didn't bother to learn a lot about it. They hired good people, because CEOs tend to know how to do that. They hired some fantastic person or promoted somebody to CIO. But these CIOs tended to not have much of a business vision and tended to be more

or less techno-freaks. They promised the moon. They said, I'll take care of it for you, Mr. CEO, which is exactly the wrong answer. They overpromised and underdelivered.

ASAP: What's the right answer?

PETERS: Well, the right answer is that if...if you look at Wal-Mart, Federal Express, CNN, American Airlines, Rosenbluth Travel, BancOne, they have experimented their way in. They never expected to get it right the first time. The CEO has been involved with the vision from the beginning. It's been the CEO's vision.

ASAP: Can the CIO give you a technology vision?

PETERS: Absolutely not. Period. It's got to be the CEO's technology vision. The CEO has got to have a workstation on his or her desk, has got to love this stuff. I remember when I sat down with Bill McGowan at MCI 3 or 4 years ago. Every 5 or 10 minutes, even when we were doing the interview, McGowan would turn around to see what the hell had come in on this wonderfully intense and zany personal MCI Mail internal system that he used. He was engaged with the technology. Now, Bill was not a technologist any more than Sculley is, for crying out loud. But it was at his fingertips. He got a kick out of it. He smelled it and

felt it and touched it and had it in his gut, even though I doubt that McGowan could have programmed his way out of a wet paper bag. That's the issue to me. The CEO has got to be his own chief information officer. He or she has to be thoroughly engaged in the process; the CIO can only be his helper.

ASAP: People criticize you for inconsistency. Fair?

PETERS: I could give a damn less, truth be known. I know it drives some people crazy. One of the things I wrote about in *Liberation Management* was that in order to be good you have to be consistent, and once you're consistent you're going to get knocked off.

ASAP: Doesn't seem fair, does it?

PETERS: That's life in the big city.



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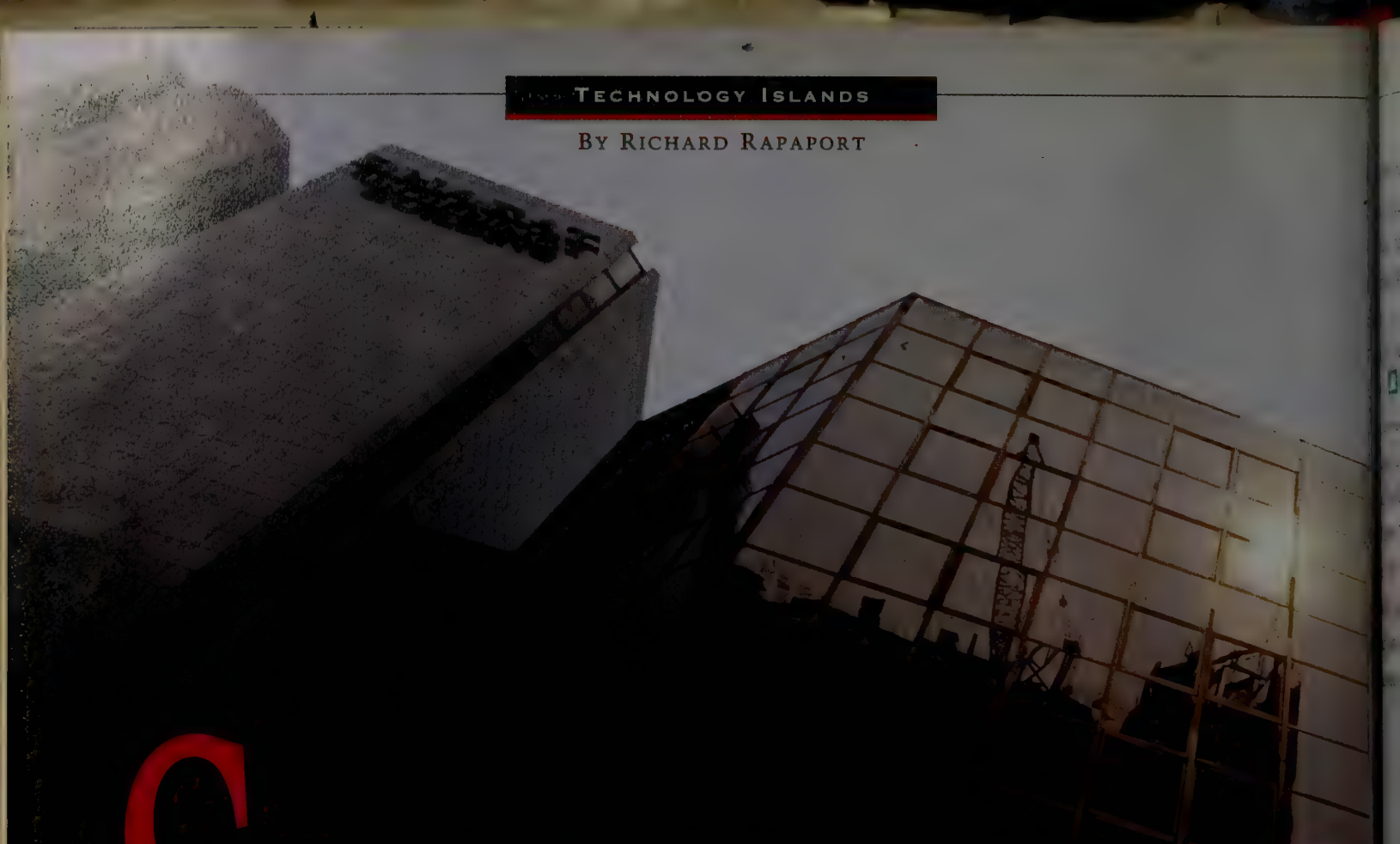
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BY RICHARD RAPAPORT



SINGAPORE

Still Onward and Upward?

As Goh Chok Tong inherits the mantle of Lee Kuan Yew, the Pacific Rim's economic overachiever must find a way to reconcile the heady freedom of information technology and the compulsive control of a Confucian state.

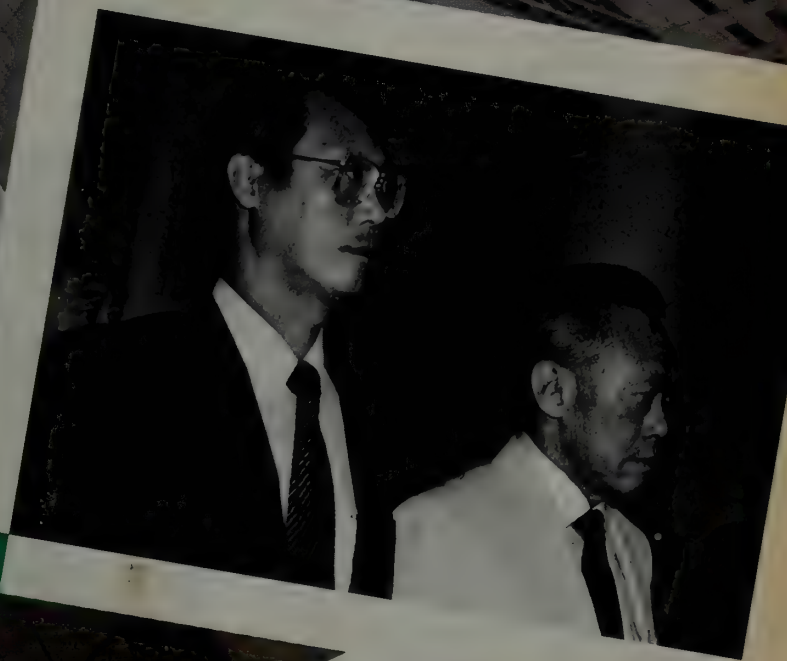
ON A MOONLESS monsoon-threatened December night, the air is steam-bath hot. A crowd gathers around a temporary stage in a plaza surrounded on three sides by low-rise apartments, small shops and restaurants, and on the fourth side by the elevated tracks of Singapore's Mass Rapid Transit. Beyond the MRT tracks lie more blocks of modern government-built mid-rise apartments, typical of the housing in which 85 percent of Singapore's 3.1 million people live.

At the rear of the stage, painted on a white backdrop, is a red lightning bolt through a white circle ringed in blue. Next to it, in large capital letters, is written: "FOR A STRONG FUTURE

AND A GOOD HOME." The emblem and slogan signify the People's Action Party (PAP), Singapore's political elite that has ruled since independence in 1965 and that is largely responsible for transforming the smallest republic in Asia into one of the most muscular technological powers in the region. Singapore, with a population one-seventh that of Taiwan, has a per capita GDP about twice as large.

Speaker after white-clad speaker rises to reinforce with their signal, as well as their words, PAP's virtue and orderliness. Because Singapore is officially multicultural (though predominantly Chinese), some of the speeches are in English,

def history of time:
Lee Kuan Yew, the
primary force behind
Singapore's economic
miracle, as a rising
political star in the
1950s. **2** Goh Chok
Lim, a western-
educated economist
and politician, with
Lee Kuan Yew and
Yusuf Ismail as the new prime
minister of a nation
on the brink
of change.



some in Malay, and most in Mandarin. Though the crowd is good-natured, Singaporeans have grown accustomed to air conditioning. They restlessly await the arrival of the show's star, Prime Minister Goh Chok Tong.

Goh, a 53-year-old former economist who became prime minister in 1990, was not former Prime Minister Lee Kuan Yew's first choice as a successor. Nevertheless, Goh has quite suddenly become the centerpiece of some of the most extraordinary and unsettled political activity in Singapore in decades. Largely because of age, illness and other factors beyond mortal control, the usually glacial pace of change in one of the most staid and orderly political entities on earth has begun to quicken.

Within months last year, two of Singapore's deputy prime ministers—one of them, Brig. Gen. (Res.) Lee Hsien Loong, the eldest son of Lee Kuan Yew, and the heir apparent—were diagnosed with life-threatening cancer. The announcement, held back by Singapore's controlled media, was nevertheless universally disseminated by word of mouth. (This tiny, talkative country has one of the highest per capita rates of cellular phones in the world.) The news precipitated a scare on the country's stock exchange.

The grieving LKY, as Lee is known in acronym-happy Singapore, quickly turned over the all-important PAP secretary-generalship, a post he had held since 1954, to Prime Minister Goh. Within days, Goh called for an election, as is his privilege in Singapore's essentially one-party democracy, but only in Marine Parade, the district he and his hand-picked team of three other members of parliament represent. As Goh intended, the December 1992 election had the appearance of a referendum on his emergence from the shadow of Lee. Under Lee's stern tutelage, this tiny, nearly resourceless island had become one of the world's most important and hellbent-for-the-future centers of technology. Now everything was about to change.

Since independence in 1965, the PAP has favored two clear—and apparently opposed—policy themes, authoritarian and libertarian. What might be called the Singaporean paradox captures the contradictory essence of the East Asia miracle of low taxes, love of technology

and teeming enterprise, spurring world-beating economic growth, accompanied by a doggedly world-lagging refusal to accept the claims of western cultural modernity.

The tall, western-appearing Goh represents a new political generation that no longer feels obliged to follow the earlier leadership's economic-siege mentality. More importantly, the transition is an assertion of personal power by a man generally perceived, until now, as a transitional figure and a political lightweight. But still, no one is quite sure just what this new independence will mean. Will Singapore change? And more controversially still, should Singapore change? Can Singapore be a center of the most advanced information technology while banning the free flow of information?

The transition that rocked the Singapore establishment in December 1992 caused much head shaking. "The whole format of the political life of this country has changed in a week" was the astonished comment of Ian Ward, Singapore-based publisher and former

and believes people are good, that they have a right to argue and to disagree."

Rajaratnam's point is a crucial one. The right to oppose and question, and to create, has become more than an esoteric subject politely discussed over drinks at the posh Tanglin Club, in the think tanks at the National University of Singapore or in the myriad government ministries. In planning for the island's economic future, the issues of openness and creativity have become matters of profound national interest. Indeed, these are the ingredients now accepted—if grudgingly—as necessary for Singapore to progress to the next level of economic development. That next step will take Singapore past the cheap-and-dirty manufacturing that saved the toddling republic in the 1970s and beyond the high-tech manufacturing that made it a rich adolescent in the 1980s. Goh has spoken about the need to enter "the economic superleague," to become what party sloganeers had dubbed the Intelligent Island, and to do it through a plan the government calls IT2000.



Net Worker Tommi Chen, deputy director of the Computer Center at NUS, wants more of his compatriots to have access to the worldwide InterNet universe.

Daily Telegraph correspondent. S. Rajaratnam, the 77-year-old former foreign and senior minister—and, after Lee himself, possibly the grandest of Singapore's grand old men—put the fundamental change of leadership philosophy into the requisite Biblical terms. "Lee," Rajaratnam says, "is like an Old Testament prophet; he believes men are sinful. Goh, he's a New Testament man

Announced in March 1992, IT2000 is a far-reaching and expensive initiative calling for the transformation of Singapore into the information-technology hub of Asia, the technological center of the world. IT2000 proposes the blurring of computer and communications technologies to create an information technology oasis where information—audio, video and text—and analysis would be

easily available and malleable as well as sweetly profitable. The IT2000 report proclaims that "Information is the currency of the new age." Its vision is of a Singapore where the technological West telecommutes to the productive East, where "virtual corporations" would use fiber-optic connections to broker design, research, engineering, manufacturing, distribution, sales and marketing to the places around the globe where each function can best be accomplished.

Here, then, is the crux of the Singapore technological paradox: how to inculcate the open, innovative and perhaps even messy mindset needed to attain leadership in the next century in a society that still largely accepts the ancient Confucian dictum that "the nail that sticks out gets hammered down." What Prime Minister Goh seems to be promoting through IT2000 is a paradigm shift that will test whether a society largely content to follow rules can adopt an organizational model where the rules by necessity must be improvised as things go along.

It is a shift that is already sorely trying the patience of Singapore's educated elite. One middle-level manager spoke in an unguarded moment more with hope than with experience about "learning how to manage technologists." It is a shift being watched in minute detail by the nearly weekly delegations from China who are eager to see if Singapore holds the key to creating an open economy in a still tightly controlled society.

TO NET OR NOT TO NET?

Show time for the computer jocks at the National University of Singapore came late one morning in July 1991, when Senior Minister Lee Kuan Yew arrived for a demonstration of several promising computer systems being developed and used at the Kent Ridge campus. Lee was no stranger to the high-technology types at NUS. During his years as prime minister, he had peppered researchers with suggestions for the use of various kinds of applied technology. Lee was an early proponent of the educational use of CD-ROMs. He had championed a globe-spanning interactive video network that would permit students in Singapore to audit lectures given by leading professors at institutions such as Harvard University and Cambridge University.

That day, however, things didn't get off to a particularly good start. Lee made his first stop at the Central Library to inspect the new LawNet system. Over six months, most of Singapore's case law had been entered into a database that promised to simplify the lives of lawyers who previously had to spend weeks researching the arcana of local codes. Walter Woon, the brilliant, combative vice-dean of the law school, and like Lee a Cambridge man, had been designated to show off the system and field what undoubtedly would be Lee's tough questions.

Woon was not burdened with the ominous belief that to say something Lee didn't like meant "bad things would happen." Nor did Woon avoid countering Lee, who was well known for his distaste for Singapore's independent judiciary. Lee proceeded to question the reasons for even quoting local case law, let alone computerizing it. Observers were amazed as Woon did what few in Singapore could ever do: He matched the steely senior minister argument for argument.

Very few Singaporeans were yet allowed on InterNet. Only a few professors, a handful of graduate students and, ironically, Lee's computer-whiz youngest son had access to the open international system. Chen wanted to expand that base of users. He was already in the midst of a low-intensity guerrilla war with Singapore Telecom and Singapore Network Services, the quasi-governmental company that controls commercial IT networks, over the installation of an open, public international computer network.

Chen's demonstration clearly impressed Lee and the other government officials on the tour. Everything seemed to go swimmingly for Chen until a nagging question emerged and seemed to hover in the air, unspoken but implicit in the line of discussion: How do you control it?

It was a crucial question that cut to the heart of the dilemma confronting Singapore's information technocrats: Who, if anyone, could or should control the networks that were the key to the success of IT2000? Among traditional



Legal Ease When the formidable Lee Kuan Yew doubted the wisdom of computerizing local case law, Walter Woon, vice-dean of Singapore's law school, refused to back down.

Unruffled, Lee pushed on to the science facility. There, Dr. Tommi Chen, the 34-year-old deputy director of the NUS Computer Center, showed Lee various networking capabilities, catching his imagination by tapping into the library computer at Lee's British alma mater. Chen, who also ran the Singapore branch of the InterNet computer network, was happy to have Lee's atten-

tion. Very few Singaporeans were yet allowed on InterNet. Only a few professors, a handful of graduate students and, ironically, Lee's computer-whiz youngest son had access to the open international system. Chen wanted to expand that base of users. He was already in the midst of a low-intensity guerrilla war with Singapore Telecom and Singapore Network Services, the quasi-governmental company that controls commercial IT networks, over the installation of an open, public international computer network.

Half of the test is complete. Singapore has already spent billions on net-

working capabilities, resulting in an abundance of nets that span the range of governmental and business services. In addition to LawNet there was PortNet (for shipping), TradeNet (for import-export), StarNet (for air cargo), MediNet (for hospitals, clinics and insurance companies) and CoiNet (for the con-

not be hooked into any of the international nets, and Singapore Network Services reserved the right "to decide what goes on the network." That meant the outright exclusion of areas of possible political, religious or moral controversy, unless discussions on those issues were run by what SNS defined as

old Chinatown where businessmen still eat their lunches in the noisy chicken-rice stalls (while keeping in touch with their offices on cellular phones), Singapore is as efficiently modern as any city on the planet.

Modernism is etched on the major streets in town, like Scotts and Orchard roads, where Singapore seems to be one giant Asian-American shopping mall filled with blue-jean-clad teenagers, stylish office workers and dark-suited executives buying Singapore-made computers, video games and calculators. When not shopping, they are downing lunches at one of the country's 44 McDonald's, 39 Kentucky Fried Chicken or 18 Burger King restaurants.

Singapore's love affair with newness is not new. In fact, the search for the "next thing" has long been a key part of life in a country whose people instinctively understand that its survival depends on being nimble enough to continually leap ahead of the world economic curve. As Brig. Gen. George Yeo, minister for information and the arts, and second minister for foreign affairs, puts it, "People who came to Singapore were driven by profit and adventure. The living culture of the place is sustained in the daily life of commerce."

As Yeo talks, he is sitting uncomfortably in a comfortable chair in the elegant 37th-floor office he occupies for one of his jobs. One of the PAP's brightest lights, the conscience of the party, keeper of Singapore's informational gate and a man mentioned as a future prime minister, the balding 38-year-old Yeo also served as Prime Minister Goh's campaign manager. Like most of Singapore's leaders, Yeo has gone to school overseas, and like Lee, he is a double first at Cambridge who went on to earn an M.B.A. from Harvard.

Yeo contends that Singapore has survived and prospered over the years largely because "since the days of Raffles [Sir Thomas Stamford] we have learned not to have any particular attachment to goods or services, spices, opium, tin or rubber." The view from the office window of the gleaming high-rises that dwarf what little remains of colonial Singapore proves that this instinct to separate from the past is always energetically at work.

Viewing this detachment as necessary, Yeo describes how the trade in

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END UP
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2 Years On-Site Warranty
covering labour & parts!**

Marky Marketing A sign of the change in Singapore's once staid advertising environment is this slightly mad, lightly clad pitch for the home-grown Datamini PC.

struction industry). Each system was, in its own way, an important cog in Singapore's drive for IT supremacy. Each connected private industry and relevant government agencies and had the capability to shave days off critical interactions. In the case of PortNet, the various computer and telecommunications systems gave Singapore's container operations, the largest in the world, a competitive advantage that other world-class ports could only try to emulate.

In mid-1992, Singapore Network Services decided that the time had come for Singapore to have its own public-access network. Called Comet, this network would let users talk to each other and tap into volunteer legal and medical advice. It would even provide a forum for the discussion of ideas.

There was a catch: Comet would

"respectable people."

Though Tommi Chen kept quiet on the issue of who would control computer networks, he remains confident that "InterNet will open up Singapore." Chen's friend Walter Woon is also optimistic. Talking about the issues facing the current masters of information in Singapore, Woon contends that "they know it's only a matter of time before there is an open flow of information. They resist, but they know you simply can't insulate a country anymore."

NEW-AGE ARBITRAGEUR

Those who come to Singapore expecting a world out of Joseph Conrad often leave disappointed, having experienced something more akin to a tale by Isaac Asimov. Aside from a few fragrant, colorful streets in Indiatown and

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Don't believe it? Just ask West
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Their revenues are tied
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procedures,
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And we did something
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We observed their business. And

we installed a system that lets
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ROLM, we insist on learning
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Mr. X isn't in? How could Ms. Y
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It may be you need something
as sophisticated as a telephone-
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rubber and tin was taken away from Singapore in the 1940s and 1950s by producer nations such as Malaysia and Indonesia. Instead of getting mad, Singapore got on with it, turning its attention to new fields: petrochemicals, banking, tourism and ultimately sophisticated high-technology manufacturing. "We deal in the commodities where we have an advantage and where returns are positive," Yeo says. "It's almost an instinct of the people."

This drive for acquisition and trade is a cultural heritage fueled by the need for intelligence. "To make money," Yeo explains, "you need information that someone else has. In Singapore there has always been a ceaseless drive to get that information advantage." Historically, this has led to what Yeo describes as "a private information net," a bush telegraph stretching across Asia. "Here in Singapore," he suggests, "information streams passing through have allowed our businesses and traders to arbitrage it."

The talent for arbitrage is what drives Yeo and other leaders who are convinced that information itself will be

ties that found their way to the free port of Singapore.

BOOTSTRAP INC.

In 1965, following Singapore's surprise expulsion from Malaysia because the city's two million industrious Chinese threatened to dominate the Federation, little of anything that brought either profit or advantage was moving through the new republic. The local civilian pay from the British military presence was the largest single contribution to Singapore's meager purse, and Britain, beset by economic problems at home, was planning to pull out of Singapore after 146 generally profitable years of overlordship. Politically, the PAP and other parties had spent their entire existences preaching that Singapore and Malaysia were linked and could not exist apart. In a single day, Singapore's founding fathers had to change the beliefs of a lifetime.

Being a British subject one day, a Malaysian the next and a Singaporean the day after was psychologically wrenching. Yet starting a national existence from scratch was also, in a strange

forced to create a going economic concern overnight.

The pragmatism that allowed a nation to be invented from scratch also created a facility for discarding political and ideological baggage. Lee Kuan Yew's PAP, once regarded by Malaysia as leftist, enacted a series of highly unsocialistic measures. These included crushing communist-led unions, lengthening work weeks, cutting holidays, and offering pioneer status and tax holidays to multinational corporations willing to take a chance on Singapore.

The newly formed Economic Development Board was charged with shaping an infrastructure that would enable multinational corporations to get factories running in a fraction of the time needed in other parts of the world. "With 15-percent unemployment, we were forced to adopt outside approaches, to become as international as possible," says Tan Chin Nam, current managing director of the Economic Development Board.

The country suffered Third World disapproval for courting multinationals, but companies like National Semiconductor, General Electric, Texas Instruments and Hewlett Packard found what they were looking for: low taxes and inexpensive manufacturing in a user-friendly, English-speaking environment.

By the late 1970s, hundreds of firms were producing color televisions, calculators and various electronic components, ending Singapore's employment pinch and causing nations around the world to condemn, envy and, most of all, try to emulate what was being called the Singapore Miracle. Yet nearly full employment and a strengthening Singapore dollar brought a fresh set of problems. Dramatic rises in wages and the national living standard meant that the country was less able to compete with lower labor costs in Indonesia, China, Thailand and Malaysia. As a cut-rate manufacturing center, Singapore could survive but not prosper.

In 1980, the government called together the country's best minds, and the Committee on National Computerization (CNC) was formed to facilitate the massive reordering of priorities necessary to achieve continued economic growth. The result was a new national economic plan focused on data processing and computers, which Goh Chok



Occidental on Purpose A taste for American fast food has brought 39 Kentucky Fried Chicken outlets and 44 McDonald's to Singapore's teeming streets. Can MTV be far behind?

the rubber, tin and oil of the 21st century. If the IT2000 plan comes to pass, Singapore will be the information arbitrageur to the world. In the vision, an Intelligent Island staffed by highly trained and creative IT professionals will manage, control and trade in ideas and communications as previous generations of traders brokered the commodi-

way, liberating. "We had to eat our own words to prove Singapore *did* exist," S. Rajaratnam recalls. And prove it first of all to the tens of thousands of newly minted Singaporeans who, questioning how such a tiny place could survive, had packed and were prepared to flee to more lucrative pastures. To keep Singapore alive, the new government was

Tong, then minister for trade and industry, referred to as Singapore's "second industrial revolution." The CNC's report called for several thrusts, including increasing funding for computer literacy in the schools, promoting the development of an indigenous software industry and urging the government to take the lead by computerizing the entire civil service. At the same time, to promote entrepreneurial initiative and to relieve the effects of burdensome income taxes, Goh urged lower taxes for foreign investors.

In September 1981, the Singapore Parliament created the National Computer Board to oversee the computerization. The initial plans were bold indeed, considering how few computers were in use at the time. As Dr. Juziwar Motiwalla, who later headed the Institute for Systems Science, recalls, "We needed to raise the collective consciousness, to get government and other organizations to even understand computers and how to handle them." The ISS organized intensive computer literacy seminars for all government ministers, members of parliament and union leaders as well as the heads of Singapore's major companies.

One executive in little need of a computer seminar was Johnny Moo, a mathematician and computer scientist, and co-founder, in 1970, of CSA, one of Asia's first systems-integration companies. Beginning with a \$300,000 contract from the United Nations, Moo continued to expand CSA until, by 1991, it was a publicly held company doing \$70 to \$80 million all over the world. The ebullient Moo, widely regarded as Singapore's Ross Perot, lent crucial expertise through the 1980s to the plan to computerize Singapore, though in the 1970s he had difficulty gaining the ear of government officials or the attention of local bankers not initially tuned into the importance of computerization. Moo persisted and eventually got his business plan in front of an old university colleague named Tony Tann, a banker with the Overseas Chinese Bank Corp., Singapore's leading bank. Tann liked what he saw and convinced the bank to buy 60 percent of CSA and appoint him chairman.

Not only was this the establishment's first real plunge into the nascent home-grown computer industry, but it also opened a crucial personal connec-

tion. When Tann became a leading figure on the National Computer Board, he quickly brought in Moo as one of the few Singaporeans who understood the growing global computer marketplace. Eventually, Tann went into politics and later became one of Lee Kuan Yew's choices to replace him as prime minis-



Yeo Man of the Guard As minister for information and the arts, Brig. Gen. George Yeo will play a crucial role in deciding how much government censorship will be eased.

ter. Moo won the nickname Mr. IT. Both have both played large and interlocking roles in adding fuel to Singapore's technological bonfire. Moo's premise—"in the future people won't buy boxes, they'll buy solutions"—was critical in steering the country away from manufacturing and into information technology.

The early 1980s were a boom time for Singapore high-tech manufacturing, with wages increasing at a rate of nearly 10 percent a year. Yet the miracle of near double-digit annual growth, which saw the country's computer-related manufacturing expand from (S) \$69 million in 1981 to nearly (S) \$1 billion by mid-decade, did not last. Largely the result of runaway public spending and forced pension savings, the 1985 recession hit hard. The economy shrank for the first time in a decade, and even high-tech manufacturing could not insulate the still small economy from the chill of worldwide downturn. In 1986, another gathering of Singapore's elite was convened to develop another iteration of Singapore's future. This was led by the new trade and industry minister, Lee's first son, Lee Hsien Loong.

The result was the National Economic Plan, which argued that for continued success, Singapore needed to move beyond manufacturing and transform itself into the regional multinational headquarters for all of South Asia. The idea was to sell a "total business service center" from which companies

could design, develop, produce, market, service and export products even as they continued to move manufacturing operations to less expensive countries elsewhere in the region.

One of the most important components of the overall plan was the National Information Technology Plan. This was the first strategy to broach the subject of developing an integrated computer and communications infrastructure as the key to keeping multinational corporations in Singapore.

It was clear to the writers of the NITP that if the forward thrust of technology meant anything, it was that the entire nature of the workplace would be changing. But it was as yet unclear whether Singapore's government, no matter how competent, could inject the necessary creative content into the soul of a Confucian society. But then, maybe creativity best springs from the individual.

SOUND BLASTER MASTER

When asked his age, Sim Wong Hoo will tell you proudly that, at 37, he is "one month older than Bill Gates." But Sim is really more of a Steve Jobs type, a Renaissance computer man whose

internationally marketed product, Sound Blaster, combines hardware, software and marketing savvy. The blockbuster success of Sound Blaster has made Sim's firm, Creative Technology, one of Singapore's most notable recent successes, and Sim the country's most famous and richest young entrepreneur.

None of this is apparent when talk-

ing with Sim. His simple needs are the stuff of high-tech legend in Singapore and derive from an upbringing as one of 12 children from a poor Bukit Panjang district village called Coconut Hill Tail. Unmarried—"I haven't had a chance to upgrade yet," he says dryly—and until recently living in his brother's house, Sim tends to pad around Creative Tech-

nology's office/factory garbed in high computer-nerd fashion: glasses, white smock and a very cheap digital watch. Even though he now drives a Lexus and owns a condominium, Sim says he can live on the \$200 a month that kept him alive in the early days.

After graduating from Ngee Ann Polytechnic with a degree in electrical engineering, Sim did his obligatory military service as a radar technician. In his spare time, he built an acupuncture device that was a technical advancement but a marketing bust. Gravitating toward entrepreneurial situations after leaving the military, he worked as a designer of seismic equipment for a small firm, and there saw his first personal computer, a Radio Shack TRS-80. He was instantly hooked. "From that moment," he says, "I wanted to design Singapore's first computer."

After buying a set of manuals, Sim spent his off-hours building add-on devices to improve the performance of the TRS-80. The next step was to design his own personal computer, which he offered to his boss at the time. Before anything came of it, Sim grew tired of the lack of individual freedom typical of many family-run Singaporean businesses. "Here I was the key technical guy," he says, "doing all the engineering, hardware and software design, and I didn't even have a key to the office."

Sim quit with little but the simple desire "to do R&D for myself in my own room." He made some rocky attempts to start several small businesses (one was scuttled when a partner took off with the company funds). In 1981, still determined to build Singapore's first PC, Sim looked around for a loan, but "with no powerful friends," he recalls, "there was no venture capital," especially for a polytechnic grad with a single degree in electrical engineering. "They'd say, 'Who do you think you are to design a computer?'" Sim remembers.

In 1984, Creative Technology finally amassed enough capital to put out its first computer. The Cubic 99 was a 128-kilobyte machine that was both CP/M and Apple compatible, and had built-in sound. The Cubic 99 was the first inter-compatible, talking PC, and one that could also speak Chinese. Although the reception was not overwhelming, Sim was grateful to be selling a couple hundred machines a month.

Goh on Going Forward

ASAP: In your economic program for the coming years, what priority do you give technology in general and the IT2000 plan specifically?

GOH: Near the top. We use technology to overcome the disadvantages of a limited labor force, small domestic market and lack of natural resources. Singapore aims to be a developed country by the end of this century. We can succeed only if we harness technology effectively for the economy. Information technology is a crucial component of our economic vision. Its impact is pervasive.

IT2000 will build up our national information infrastructure, making our economy more efficient and our people more productive. It will position Singapore as a hub to serve the Pacific Rim and the rest of the world.

ASAP: Do you see a continuum between Singapore's historic ability to arbitrage goods and services and IT2000's plan to arbitrage information?

GOH: Yes. Several foreign newspapers are printed here. Electronic mail and faxes have become essential business tools. As a financial center, a quick flow of information is necessary. IT2000 provides information linkages to generate business globally.

ASAP: If, as is widely believed, openness and creativity are necessary factors for success in an IT society, how do you plan to foster those qualities in a country that still seems to live by the maxim "The nail that sticks out gets hammered down"?

GOH: For a society to function well, there has to be respect for law and order. The rights of individuals must be balanced against the collective interests of society. We are, by and

large, a conformist Asian society given to discipline and respect for elders and the government. This is our strength. People work hard as a team.

To foster the greater creativity and entrepreneurship necessary in our next phase of development, we are loosening up on rules and regulations which impede their development. We have done so for the schools, the arts and now business. The government encourages feedback, debates and public forums.

ASAP: Do you think Singapore's population has matured to a point where self-discipline can take the place of restrictions on information? Are you actively working toward that point?

GOH: There is little information that Singaporeans cannot gain access to. There are 8,000 foreign and domestic publications in at least 18 languages circulating here. The BBC World Service can be received on FM instead of shortwave because we allow the BBC a booster station in Singapore. CNN is available through a commercial cable company to all subscribers. The financial and business community, and anyone who wishes to subscribe, has on-line access to major financial wire services like AP, Dow Jones and Reuters. But some restrictions will always be necessary. The line we draw is over materials that erode our core values of family or which threaten racial and religious harmony. So magazines like *Playboy* or religious literature that inflames feelings will not be allowed. We also take exception to any foreign publication if it attempts to engage in domestic political debate. Domestic politics is for Singaporeans only.

By 1986, with the price of the IBM PC coming down close to that of the Cubic 99, Sim decided it was time to begin work on a super-PC. In less than six months, his small team built the computer they called the Cubic CT, both for Creative Technology and for Chinese Talking. Sim felt the Cubic CT was "very rational and very small," and was better than an IBM. Here was Sim's dream machine, incorporating "all the best ideas of what a good computer should be." The marketing slogan was "Beyond your wildest dreams." This was both a blessing and a curse. Years ahead of his time, Sim had invented the first multimedia PC, long before people even knew what multimedia meant. At stores in Funan Center, sales representatives could not figure out how to sell the computer; it took them hours to explain all its features. Regional distribution collapsed when it became obvious that there wasn't enough free software to support the computer.

This is where Sim ran into one of the major problems confronting the Asian computer market: the lack of any tradition for protecting intangible properties. Part of the problem was cultural. In the Confucian system, an idea is something everyone shares. Software is essentially ideas in code, and, with diskettes, those ideas are simple to copy. "In Asia," says Claire Leow, a reporter with the Singapore *Business Times*, "the idea of owning intellectual property is nonexistent." This was a formidable problem for Sim. "People could just buy an IBM and copy the software for free," he says. Or they'd see his talking, music-playing computer and ask, "Where's the free software?"

With sales marginal, and having spent all of his company's money on the new computer, Sim sat down and "started to do a lot of soul-searching." Creativity was not the problem. "I knew we had world-class technology," Sim says. "We were all very hard-working, very aggressive, and yet still didn't make money. What was wrong?" Since the market for clones was saturated, Sim knew he was not going to get rich building another computer. What he needed was a quick fix, some element of the advanced technology that he'd put into the Cubic CT and that he could sell to millions of computer owners.

Initially he thought the company should go into software production. Yet

he already knew Singapore would not support software, and to go after the U.S. market meant competing with all of the thousands of software writers in the United States. "We had to look at the cultural issue," he remembers, "of how you could fight in an alien market."

Then Sim had a flash. "I realized that music is international," he says, "that there is no specific culture." One of the best pieces of technology on the Cubic CT was its sound card. The U.S. might not be interested in a computer that spoke Chinese, but what about music? The sound card actually solved a lot of problems. It utilized both hardware and software, which would make it useless for anyone to steal the codes. Offering the best of both worlds, his product was safe from Asian pirates and interesting enough for American techies.

Sim quickly refined his music card and called it the Creative Music System. With the system, an owner of a mute PC could instantly produce good orchestration by playing tunes with one finger. The card sold well in Singapore. Sim was ecstatic when he realized that "for every card we sold, we made the equivalent of a PC." Still, he knew that to be really successful, he would have to take his product to the U.S. In August 1988, Sim turned the company over to his partners and left for the States. "I had to burn my bridges," he says. "I had to create a market."

Sim rented an anonymous townhouse in unglamorous South San Francisco and began to tout his product.

After trying mail order, direct mail and personal calls on dozens of distributors, he hit on the right strategy by hooking up with software companies working on games, including Broderbund Software (Where in the World is Carmen Sandiego?) and Activision (Ghostbusters). As Sim recalls, both companies understood that "in order to have good games, you need good sound." If Sim's card could do music, it certainly could do sound effects as well.

Over a period of months, Sim went back and forth with the game companies, utilizing his nascent version of an IT network to get things done. When he was asked for a new software code, Sim would astonish his clients by promising to have it completed by the following morning. He would get on the phone to Singapore, where the day was just beginning, and ask his software writers at Creative Technology to whip up the code. When they were done, the software would be sent by modem to Sim's office in California. By whipsawing the time difference between the U.S. and Asia, he was able to fit two days' work into one.

After several months, Sim had a sound card that he called, with classic American hyperbole, Sound Blaster. When he took it to the 1989 COMDEX show in Las Vegas, Sim was stunned by the reaction. He took 600 orders in five days. Mass shipment began in February 1990, and within six months sales hit 10,000 a month.

Computer stores throughout the



Hoo's Who A symbol of the island nation's new entrepreneurial spirit, Sim Wong Hoo parlayed a bright idea, an un-Confucian attitude and sheer energy into a major fortune.

world simply could not get enough Sound Blasters, and by mid-1990, venture capitalists were begging Sim to go public. When he did, it was not on the Singapore stock exchange or even the Hong Kong exchange still favored by Asian investors. Instead, Sim took the big gamble and listed on NASDAQ in

sirable material and ideas. To try to stop or censor this creative flow was not only increasingly problematic, it clearly would be destructive to the government's plan of establishing Singapore as a world center of information technology.

As is de rigueur in a nation that is studious above all else, another high-

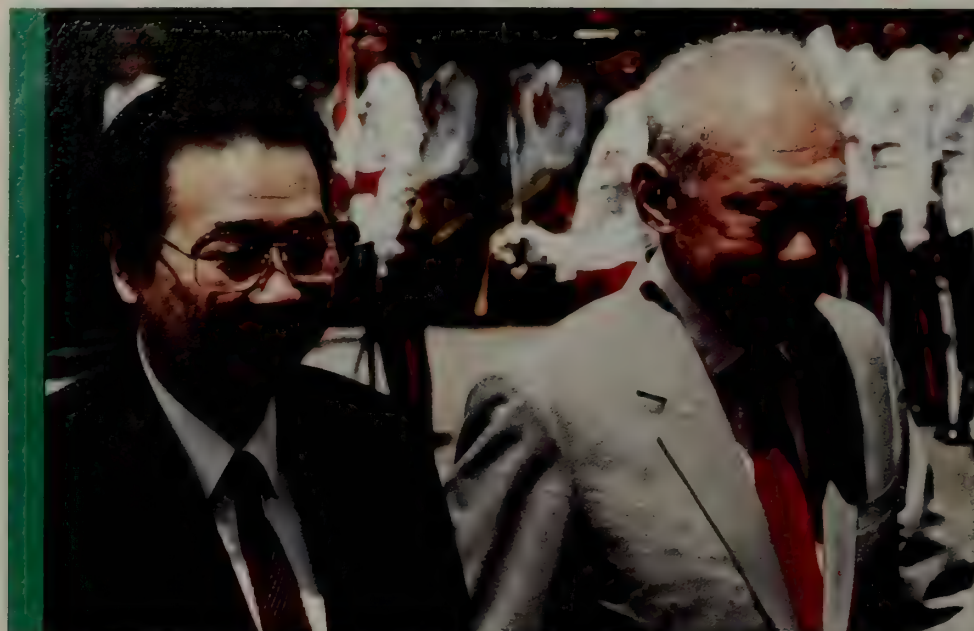
means convinced that it could be done away with entirely. In response to the report, he argued that "we should not liberalize in an unthinking manner just because other countries are also liberalizing." Then Yeo hurled the thunderbolt that could stand as the final answer to those who felt liberalization was inevitable and inevitably beneficial: "We ignore at our peril the link between moral depravity and the decline of civilization," he wrote in a cover letter to the report.

Yeo had not, as he would later tell ASAP, "resolved in my own mind that to allow space for creativity you must allow it to encroach on tradition."

The grand contradictions of Singaporean prosperity may best be reconciled in the culture of enterprise. Singapore should be compared to Hong Kong, a similarly Chinese island nation long run by the British and also technologically advanced, culturally Confucian and dubiously democratic. Singapore invests more than two times as much as Hong Kong to get the same rate of economic growth. And Singapore's tax rates are about one-third higher and yet yield no faster growth of government revenues. For all the cultural contradictions of Singaporean society and the imperatives of free information in the Information Age, it may well be most important to reconcile the economic contradictions.

This is the true promise of the Goh regime. Back in 1980, Goh summed up his attitude in a speech to Parliament: "Several advanced countries, like Britain, have been hypnotized by a single 'soak the rich' slogan, only to discover that by heavy taxes on personal incomes they have stifled the drive to excel and succeed." This strong supply-side appeal has reverberated through Singapore's policy ever since and is central to the message this robust economy offers to the West and to its own entrepreneurs.

To continue its sensational record of growth, Singapore does not have to give up Confucius. But it will have to give up authoritarian controls both on the flows of information uniquely offered by markets and on the fits of contrarian creativity imparted by innovators and entrepreneurs. As the new era dawns, the portents could be far worse, both for Singapore and the world.



The China Syndrome Former prime minister Lee Kuan Yew (r) with Chinese premier Li Peng during a visit to the People's Republic to spread the gospel of free markets and social control.

1992. By the time the deal was cut, Sim wasn't sure that Creative Technology even needed the money. Regardless, he had a market capitalization of nearly \$500 million. His one-third share made him one of the richest men in Singapore.

Sim wonders if Singapore can make the kind of creative leap he made with Creative Technology to become a world leader in the field. The pervasive attitude seems to be, according to Sim, "No, Singapore can't be number one. We have to go in with the big multinationals, and whatever's left over we'll do. At Creative, we don't believe in that. We believe in doing it ourselves."

THE GRAND CONTRADICTION

As early as May 1991, it seemed to many in Singapore's information elite that the need for openness on the one hand and the need to maintain acceptable public morals on the other were at loggerheads. The country was open; increasingly wealthy citizens could and did travel freely in huge numbers and were as worldly as anyone on earth. It was also a given that technology was daily making it harder to keep out unde-

level commission was appointed in May 1991. This one was charged with studying potential liberalization of the strict censorship laws that would eventually prevent Singapore's information revolution from reaching critical mass. The Censorship Review Committee was an extraordinarily high-level body headed by former United Nations representative, current arts council chairman and roving ambassador Tommy Koh. It reported directly to the information and arts minister, George Yeo, the man widely regarded, as one observer suggested, "as the keeper of Singapore's morals."

The committee met for more than a year and reported back to Yeo in September 1992 with several painfully reasoned and delicately balanced proposals. The committee recommended, for example, allowing "more scope for intellectual pursuit," permitting "serious" films to be "screened by bona fide film or cultural organizations" and letting publications "with educational value or research merit be less stringently censored."

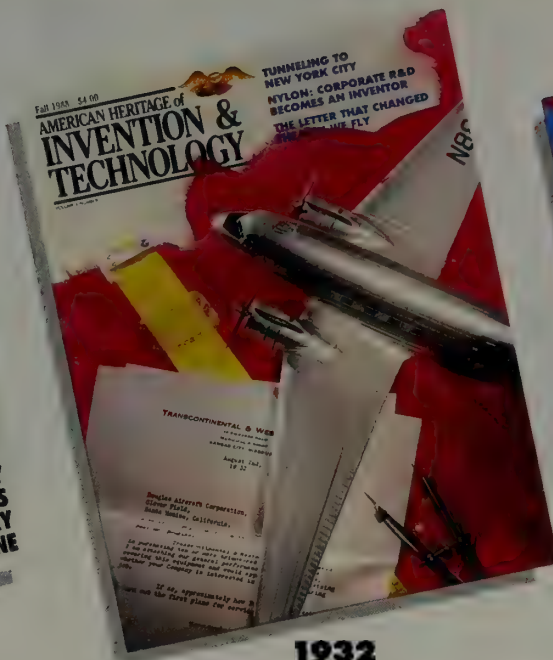
Even if censorship was, officially, no longer the only answer, Yeo was by no

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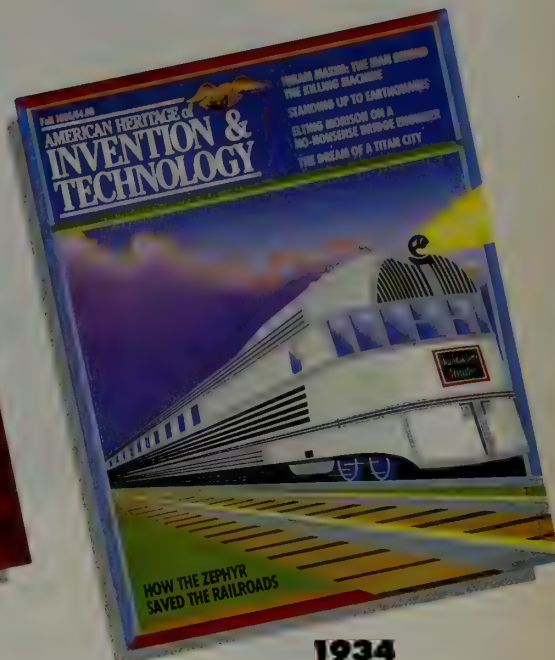
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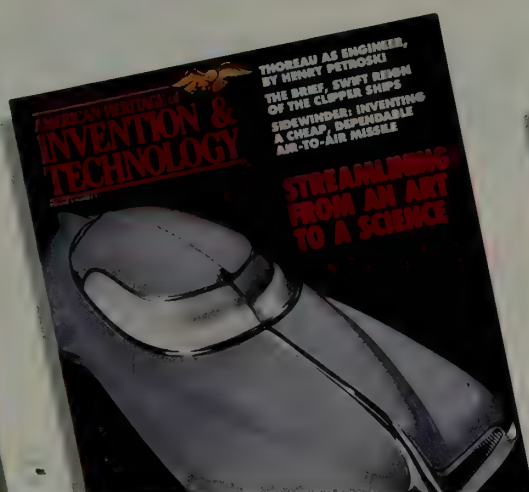
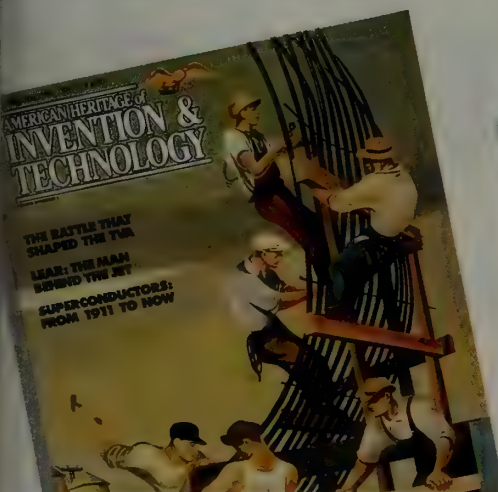
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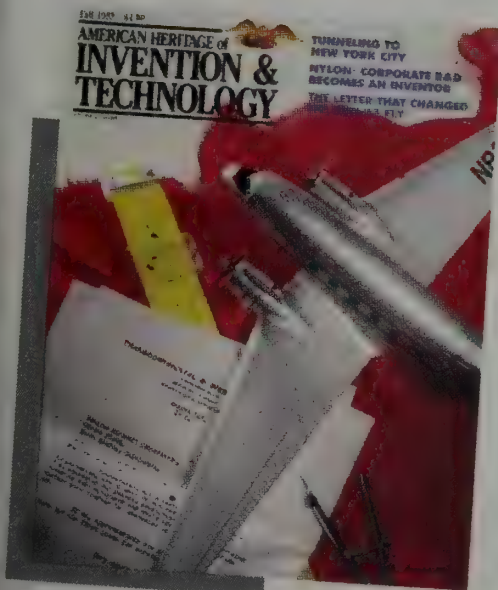
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world simply could not get enough Sound Blasters, and by mid-1990, venture capitalists were begging Sim to go public. When he did, it was not on the Singapore stock exchange or even the Hong Kong exchange still favored by Asian investors. Instead, Sim took the big gamble and listed on NASDAQ in

sirable material and ideas. To try to stop or censor this creative flow was not only increasingly problematic, it clearly would be destructive to the government's plan of establishing Singapore as a world center of information technology.

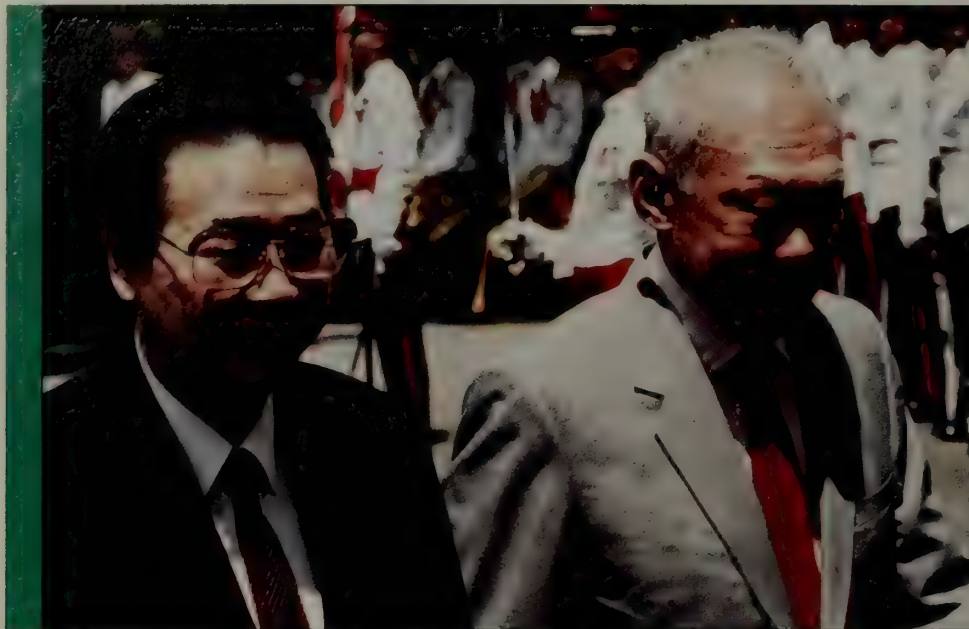
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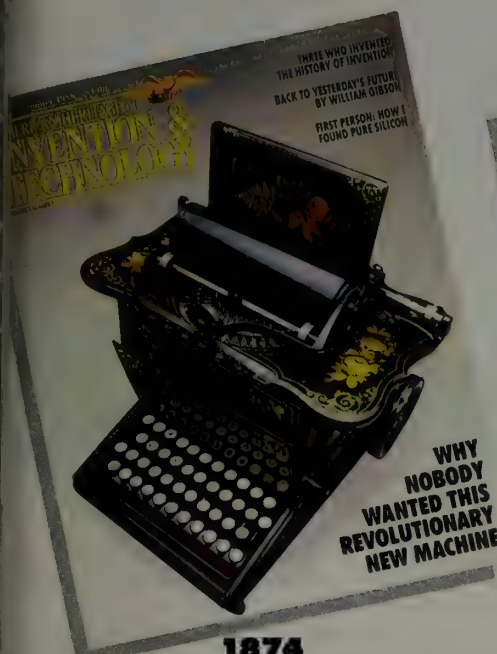
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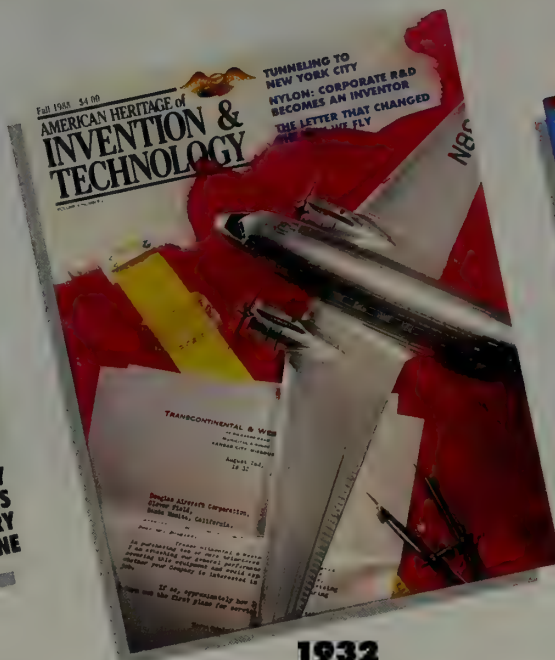
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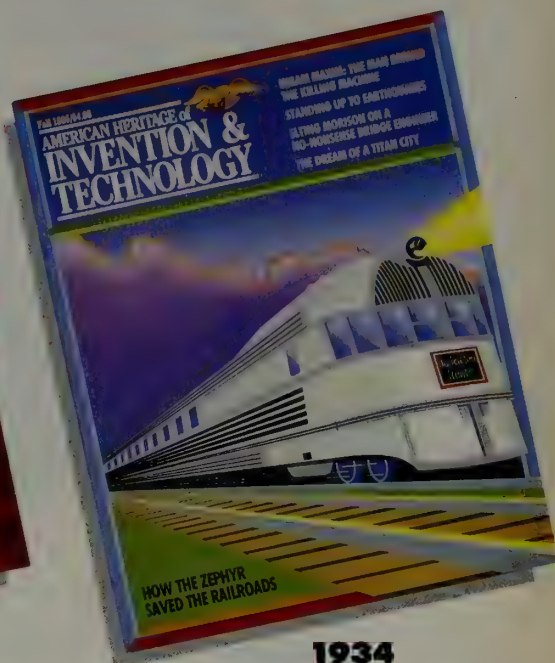
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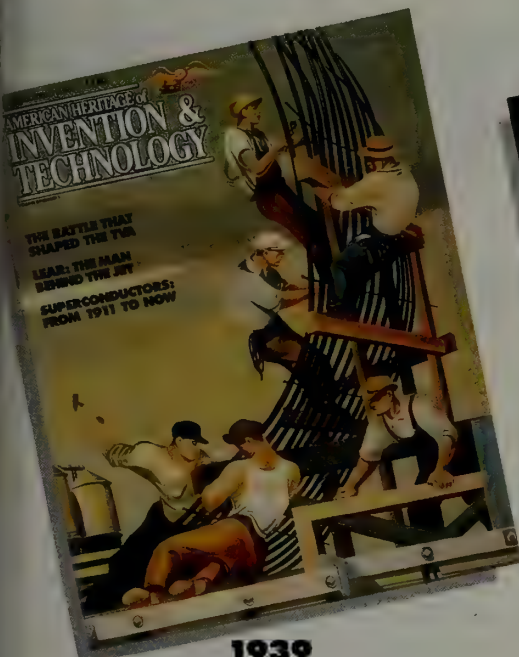
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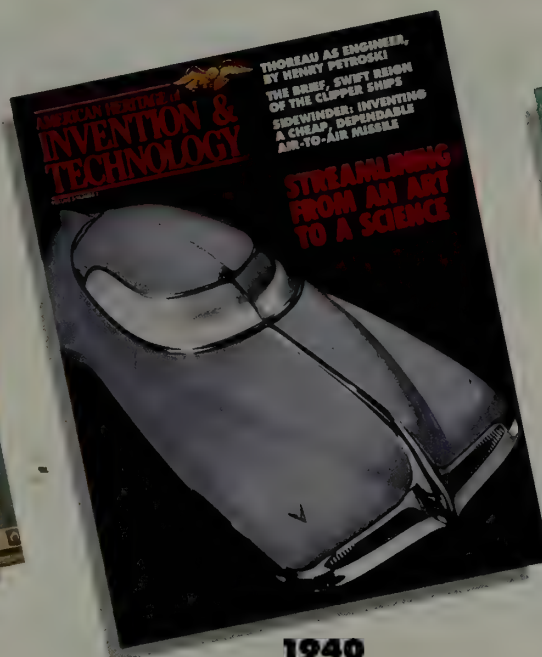
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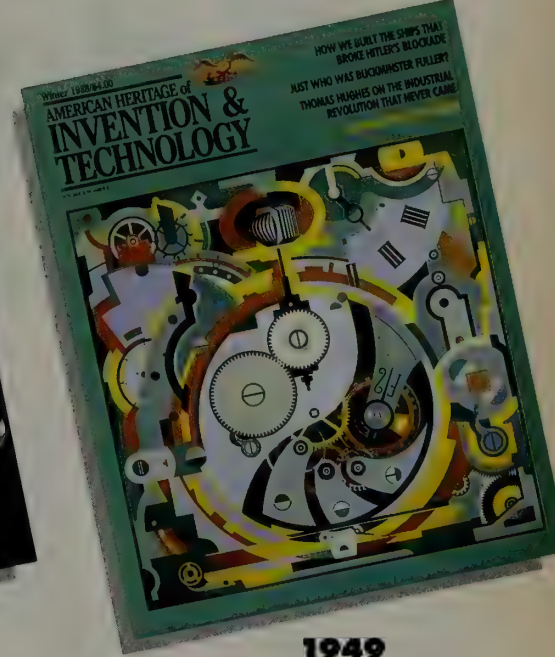
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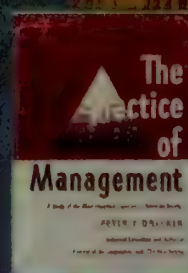
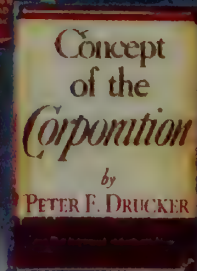
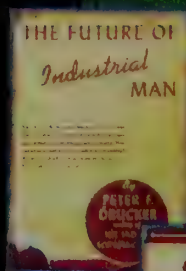
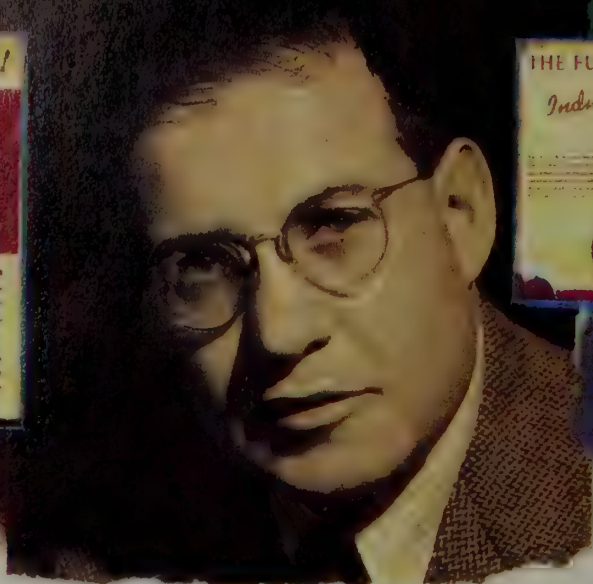
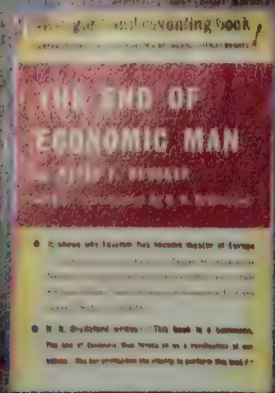
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In a revealing discussion, America's foremost management

In 1939, the same year Hitler invaded Poland and moviegoers lined up for *Gone With the Wind*, Peter Drucker published his first book, *The End of Economic Man*. Twenty-six books have followed. Astonishingly, his latest may be his best: *Post Capitalist Society* (New York, HarperCollins; London, Oxford, Butterworth/Heinemann).

ASAP recently chatted with Drucker at his home in Claremont, Calif., about the information revolution.

INFORMATION BASES, NOT DATABASES
THE GREATEST challenge of the computer industry is to learn how to build information bases, not databases. The really important information cannot be easily quantified and exists outside the organization. Even when such information exists, however, most people in business don't even know about it.

In certain ways, some of the large brokerage houses have done a better job

of building computerized systems than anyone else has done. They have an enormous amount of ready data on immediate transactions. They have information about what customers bought in the last 18 months. But most don't use it because they are transaction-focused and transaction-driven. The easiest sale is the old customer, but they are focused on the new customer.

I know two groups that do use the information, and everyone in the industry always asks, "How come those people show such incredible results?" Well, they just use the information they have.

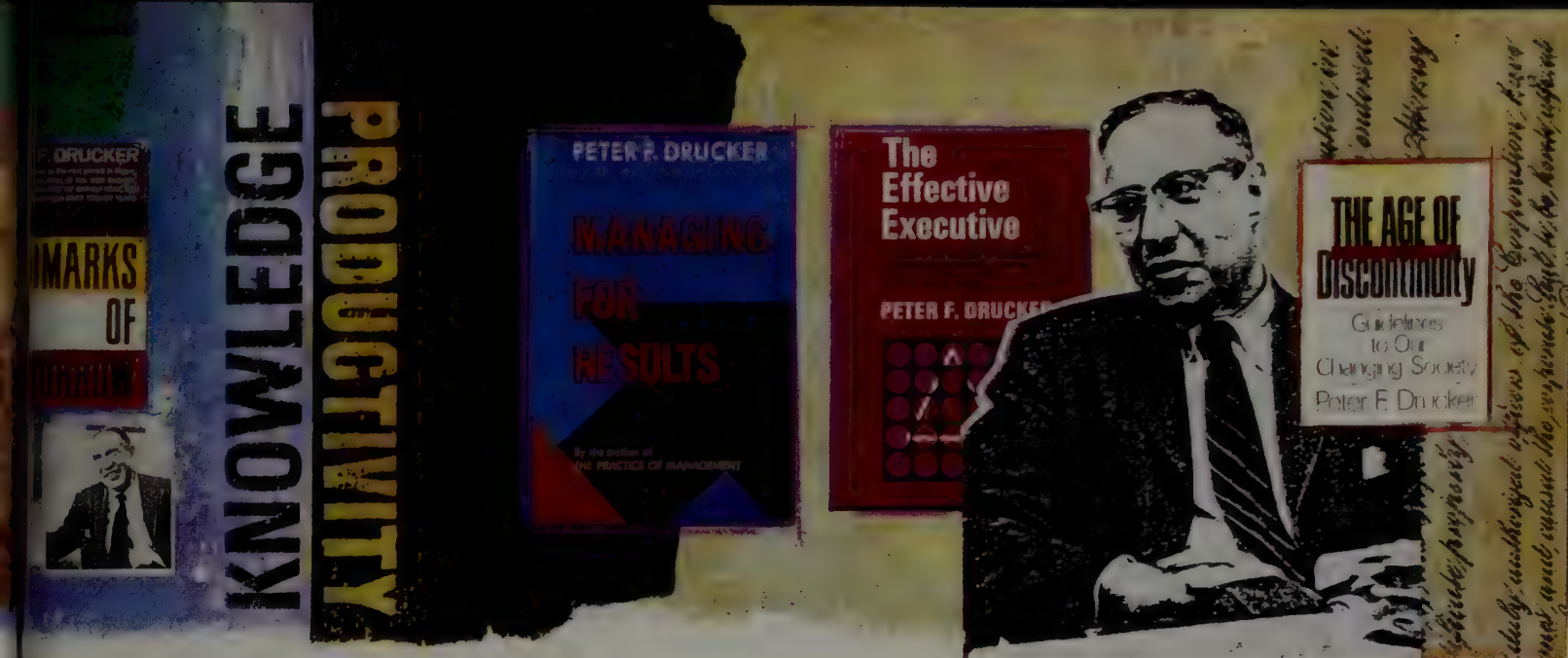
WHAT INFORMATION DO I OWE?

"WHAT INFORMATION do I owe?" is the question all knowledge workers must learn to ask. Yet this is a counterintuitive question because the human race intuitively hoards information. Our first instinct is that what we don't tell isn't

going to cause trouble.

Information has always been power. The great revolution in warfare that made the Prussian army invincible would almost cost Helmuth Moltke his professional life. For when Moltke, the man who transformed the Prussian army, was a young officer in 1850, he proposed that it was the duty of the staff officer to make sure that every officer down to the youngest lieutenant knew the battle plan. He shaped the army that first defeated Austria and then France in the Franco-Prussian War. Disseminating knowledge was a radical idea. It used to be that the colonel's power lay in the fact that he knew the plan and nobody else did, not even the commanding general.

Today, this idea of owing, or sharing, information means not only that the middle manager owes it or that the supervisor owes it. Everyone at every level owes it. Despite this necessity,



Peter Drucker

...orist talks about data, markets, information, knowledge and technology.

expect the idea to be resisted. Remember the early days of factory automation? Factories put in all this beautiful equipment, and it didn't work, because the papermaker knew, though he didn't tell anyone, that when the wind blows from the east, the machines have to be slowed down. That was his power. He knew that as long as he didn't tell anybody, "the sons-of-bitches can't fire me."

HANDS-ON STILL A MUST

TECHNOLOGY OFTEN gives people a sense of false security, leading them to think they know more than they do. This is nothing new. The arrogance of the learned was commented upon by Aristophanes. You know that famous play, *The Clouds*, by Aristophanes about Socrates? In that play, Socrates talked learnedly about what the shipmaster did, but had never looked at what the shipmaster had done.

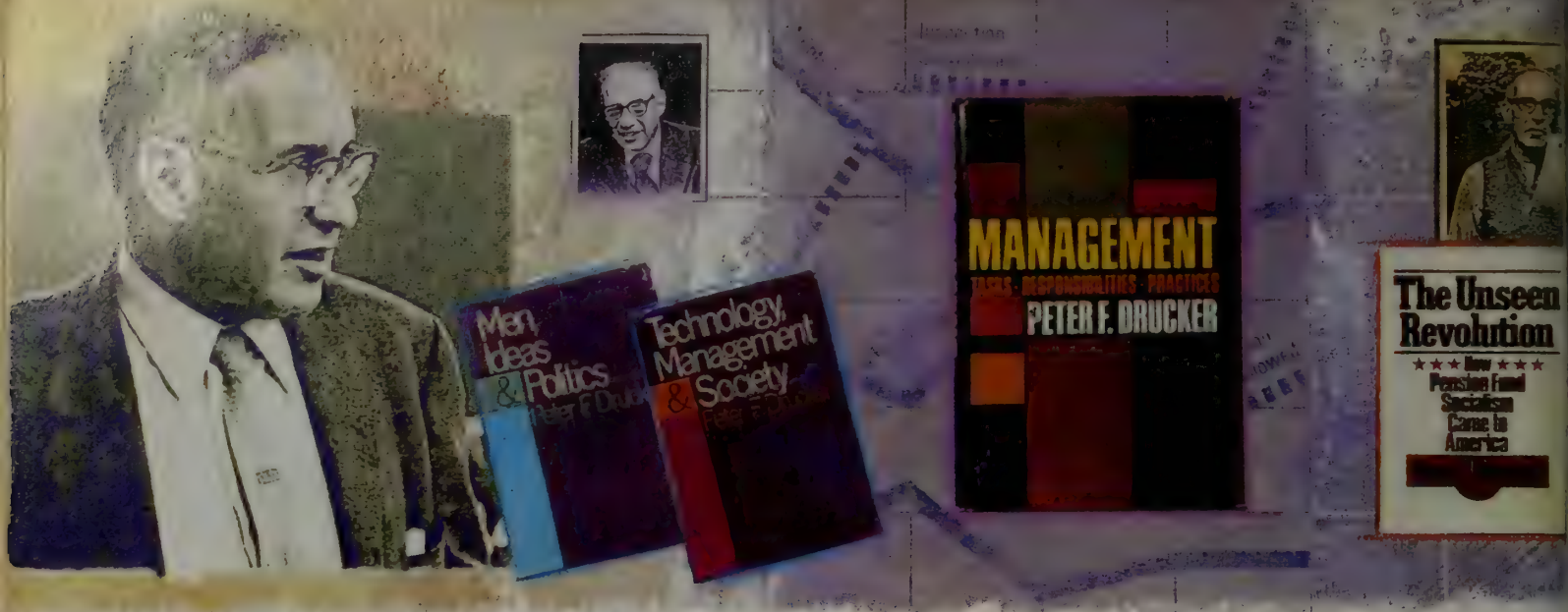
The archbishop of the Catholic church is still expected to say Mass in public every Sunday and to give communion. The commander of the battalion is expected to taste the men's food in a different platoon every night. The team captain is expected to be on-site when the crew digs a ditch and to help dig the ditch—not simply to know what it's like, but also to show by example. The moment managers forget that, they make mistakes.

DRUCKER'S OWN MOST IMPORTANT MANAGEMENT LESSON

THE MOST enduring lesson I've ever learned came from an old janitor at New York University, which had completed a new magnificent graduate-school building that had no windows on the first nine stories. We moved in, and, you know, there's always a short, brutal heat wave in New York at the end of April. The temperature went from 80 to 90 to

100, and everybody, the women included, stripped down to the barest essentials. It continued to get hotter, and my patience wore out. I went down to hunt up the janitor and scream at him. Way down in the third basement, I found an old, toothless man and I yelled at him, "Can't you read a thermometer?" He looked at me and said, "Mister, if I could read a thermometer, what would I be doing as a janitor?"

I think that's the best, most important lesson I learned. The janitor's job was to go by the calendar. In New York, through the 15th of May, you heat the building. Around the 15th of May, you turn on the air conditioner. Period. He followed the orders he had. Period. If he had been able to read a thermometer, as I had expected him to do, he wouldn't have been down in the basement working as a janitor. You have to look for that. To make things effective, you have to remember that decisions are carried out by people.



IBM'S PROBLEM

BELIEVE ME, IBM's biggest problem is that the company believes that there is still such a thing as one market. There are very different markets. What fits the university lab does not fit the bank. IBM's managers have to move beyond abstract ideas to concrete information about their markets.

I think people at IBM got technology-focused instead of market-focused. You don't get a feel for the market out of reports. You get that only by going outside and looking at what people do with their computers. When you look at that, you see installation after installation where the users have surrounded the mainframe with six perimeters of PCs. They don't use the mainframe the way IBM thinks it should be used.

THE CHALLENGE OF DISTRIBUTED COMPUTING

IT'S FAIRLY EASY to see that if you change a process, you have got to record the change. That's easy. Whether it's going to be done is another matter. To maintain both the unity of the system and the random access is a major challenge for IS managers today. One way is to give up the mainframe. But then you have no database. Or you can say that all transactions are automatically recorded—a nightmare! How do you balance the enormous flexibility of an open-ended distributed computing system, which has become a tool of people, with the need to learn from your own achievements? How do you build learning into that system? I'm not even talk-

ing about recording. Sure, contracts and the like are properly recorded, but what about the random discussion that went into them? One of the disadvantages of centralized information systems was the slowness and the poor flexibility. But one of the advantages was that you knew that you had to record change to learn, and that's missing today.

THE PROBLEM WITH COMPUTER PEOPLE

THE NEXT 10 or 15 years are the years of moving from computer literacy to information literacy. Information is my tool, but also my responsibility. How do I get the information about the market into the computer, which is very largely outside information? What do I need to compete? Competition is not only about technology, but about markets, about political conditions—it isn't scientific. In many cases all you really need is a plus or minus 20 percent indication, not precision. So how do you define what you need? How do you build it in? How do you bring it together? Computer people don't seem to be interested in this because it's not connected to speed.

CROSS-FUNCTIONAL KNOWLEDGE AND THE HISTORY OF THE COMPUTER

ONE EXAMPLE of how cross-functional knowledge comes together is the genesis of the computer. Its earliest root is the binary system—that is, the realization of a 17th-century German mathematician-philosopher, Gottfried Leibniz, that all numbers can be represented

by just two: 0 and 1. The second root is the discovery by a 19th-century English inventor, Charles Babbage, that toothed wheels—that is, mechanics—could represent the arithmetic functions of addition, subtraction, multiplication and division, which led to the discovery of a genuine computing machine.

Then in the early years of this century, two English logicians, Alfred North Whitehead and Bertrand Russell, in their *Principia Mathematica*, showed that any concept, if presented in rigorously logical form, can be expressed mathematically. From this discovery an Austrian American, Otto Neurath, working as statistician for the U.S. War Production Board of World War I, came up with the notion of data. Neurath's notion was that all information from any area, whether from anatomy or astronomy, from economics, history or zoology, is exactly the same when quantified, and can be treated and presented the same way (the idea, by the way, that also underlies modern statistics). It was a brand-new and heretical notion.

A little earlier, just before World War I, an American, Lee De Forest, invented the audion tube to convert electronic impulses into sound waves, thus making possible the broadcasting of speech and music. Twenty years later, it occurred to engineers working at a medium-sized punch-card manufacturer called IBM that the audion tube could be used to switch electronically from 0 to 1 and back again.

If any of these elements had been missing, there would have been no

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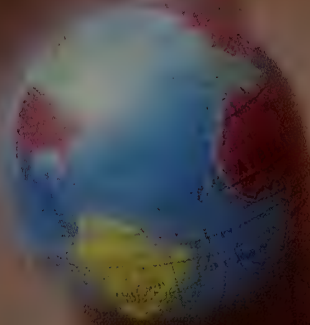
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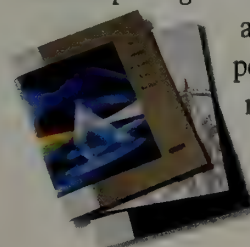
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computer. No one can say which of these was the critical element, but with all of them in place, the computer became virtually inevitable.

HOW VALUE IS CREATED

TODAY, THE REAL and controlling resource and absolutely decisive factor of production is neither capital nor land nor labor. It is knowledge. Value is now created by productivity and innovation, both applications of knowledge to work.

THE PRODUCTIVITY REVOLUTION IS DEAD

PRODUCTIVITY TODAY can be increased only by applying knowledge to work. Neither machines nor capital can do it—indeed, if applied alone each is likely to impede rather than to create productivity.

When Frederick Winslow Taylor started his work, 9 out of every 10 working people did manual work, making or moving things, in manufacturing, in farming, in mining, in transportation. The productivity of people engaged in making and moving things is still going up at the historical rate of 3 to 4 percent annually, and is going up even faster in American and French agriculture. But the productivity revolution is over. Forty years ago, in the 1950s, people who engaged in work to make or to move things were still a majority in all developed countries. By 1990 they had shrunk to one-fifth of the work force. By 2010 they will be no more than one-tenth. Increasing the productivity of

manual workers in manufacturing, in farming, in mining, in transportation can no longer by itself create wealth.

The productivity revolution has become a victim of its own success. From now on what matters is the productivity of nonmanual workers. That requires applying knowledge to knowledge.

WORK VS. CHORE

KNOWLEDGE WORKERS and service workers should always be asked, "Is this work necessary to your main task? Does it contribute to your performance? Does it help you do your job?" If the answer is "no," the procedure or operation is a chore rather than work. It should either be dropped altogether or be engineered into a job of its own.

SECRETS OF THE SUPER-RICH

THE SUPER-RICH of the old capitalism were the 19th-century steel barons. The super-rich of the post-World War II boom are computermakers, software-makers, producers of television shows or Ross Perot, the builder of a business installing and running information systems. Great fortunes such as those made in retailing—those of Sam Walton of Wal-Mart in the United States, of Masatoshi Ito of Ito-Yokado in Japan or of the Sainsbury brothers in Britain—were made by reorganizing this traditional business around information.

In fact, whichever traditional industries managed to grow in the last 40 years did so because they restructured themselves around knowledge and

information. The integrated steel mill is becoming obsolete. Even in low-wage countries it cannot compete against the minimill. But a minimill is simply a steelmaker organized around information rather than around heat.

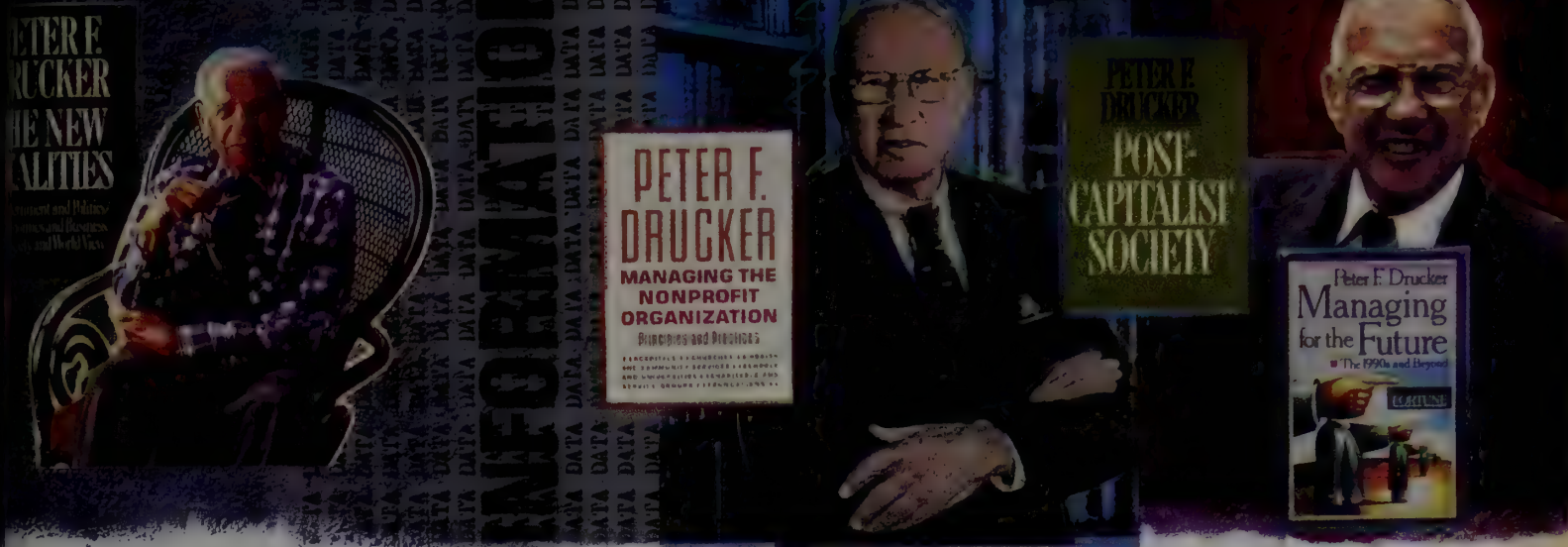
NEEDED: A NEW ADAM SMITH

WE DO NOT fully understand how knowledge behaves as a resource. We have not had enough experience to formulate a theory and to test it. We can only say so far that we need such a theory. We need an economic theory that puts knowledge into the center of the wealth-producing process. Such a theory alone can explain the present economy. It alone can explain economic growth. It alone can explain innovation. It alone can explain how the Japanese economy works and, above all, why it works. It alone can explain why newcomers, especially in high-tech fields, can, almost overnight, sweep the market and drive out all competitors, no matter how well entrenched they are, as the Japanese did in consumer electronics and in the U.S. automobile market.

But so far there are no signs of an Adam Smith or a David Ricardo of knowledge.

THE END OF NATURAL ADVANTAGE

THE PRODUCTIVITY of knowledge is increasingly going to be the determining factor in the competitive position of a country, an industry, a company. With respect to knowledge, no country, no



industry, no company has any "natural" advantage or disadvantage. The only advantage it can possess is in respect to how much it obtains from universally available knowledge. The only thing that increasingly will matter in national as well as international economics is management's performance in making knowledge productive.

WATSON VS. VON NEUMANN

COMPUTER ARCHITECTURE as we now know it was developed by two totally different people. John Von Neumann was one, but everyone knows about him. The other was Thomas Watson, Sr., who I don't think finished high school. He had absolutely no scientific background, but he anticipated everything to come, even though in the 1930s he didn't know beans about Von Neumann. If he knew him, he wouldn't have understood a word of what Von Neumann was saying. Von Neumann was not patient with ignorance. He would not have taken the time to explain anything to a Thomas Watson. Watson was patient, but he was a totally unscientific, although he had an amateur understanding of astronomy.

In 1929, when I was a young journalist, Watson came to Europe as head of the American Chamber of Commerce. We interviewed him; he was nice to us kids. Sooner or later he would begin to talk about some god-awful stupid nonsense he called data processing. None of us understood a word he was saying. But he understood data. The concept of

data had been invented 10 years earlier by Neurath. Watson, lacking any scientific background, immediately saw the application to accounting. The first modern accounting machine, beyond the cash register, was developed by IBM in 1928. IBM leased four machines in England. Four. I remember that in the 1930s I had one standing in my office in a private bank, because the sales manager for Watson in England was the nephew of my senior partner. It hadn't been uncanceled. Nobody used it.

Watson almost went bankrupt over it. Yet he had the vision that you could use accounting machines to do the tedious work of number-crunching for the orbits of the moon and planets. Watson immediately gave the order to his people at IBM to develop the first of what Von Neumann called the computer. In short, Watson had another vision. He saw that it was the memory of the sorted program that made a computer. Everybody else had only the adding machine. What Watson had in 1948—the year he performed astronomical calculations in a window on Madison Avenue in New York—was the first real computer. ENIAC was not a real computer since it could do only one thing. It had no full-programming capacity. It could do only artillery trajectories.

TECHNOLOGY MEANS INDIVIDUAL CHOICE

I SEE THE disappearance of the computer market as the computer becomes an accessory. That's already happening.

Look at all the medical instrumentation that has become computerized. We are at the point where telecommunications, television, copying and computers are becoming incorporated into one instrument. You don't sell an automobile engine separately. This will soon be the same for most computers.

Today, you have a very big trend toward individualization. Parents want choice about what school their children should attend. For the first time we say hospitals and doctors are there for sickness care. Health care is your responsibility, so you shouldn't drink so much or smoke or overeat. Only you can keep yourself healthy. That's new talk. It's old wisdom. Hippocrates said to drink only water from the spring, go to bed early, don't whore around, eat sparingly and nothing fat. People never listened to Mr. Hippocrates, because they were not paying a fee.

People want privatized information and are willing to pay for it. Network television advertising is in a severe crisis because of cable TV and VCRs. People tape the programs they want, and not only do they zap out ads, but they want programs without ads. You get such a splintered audience that you can't reach the masses anymore. You're privatizing advertising and promotion. None of the mass advertisers—Procter & Gamble, Coca-Cola—none of them knows what to do about it. We are privatizing information at a great rate, and this is the prime opportunity for the information processing industry.

ASAP

AT FIRST GLANCE, Vahak Hovnanian, a homebuilding tycoon in New Jersey, would seem an unlikely sort to be chasing rainbows. Yet in the converging realms of computers and communications that we call the telecosm, rainbows are less a matter of hue and weather than they are a metaphor for electromagnetism: the spectrum of wavelengths and frequencies used to build businesses in the Information Age.

An Armenian Christian from Iraq, Hovnanian ran a business building high-quality "affordable" housing. His first coup came on Labor Day in 1958 when, together with his three older brothers, he bought an apparently undesirable property near the waterfront in Tom's River for \$20,000. From this modest beginning has arisen not only one of the nation's largest homebuilding enterprises (divided among the four immigrant brothers), but also a shattering breakthrough on some seemingly bleak frontiers of the electromagnetic spectrum. Together with maverick inventor Bernard Bossard, Hovnanian has launched a wireless cellular TV business in frequencies once thought usable only in outer space.

Perhaps the reason Hovnanian feels comfortable today pioneering on the shores of the telecosm is that some 35 years ago he was an engineer at Philco Semiconductor following in the theoretical steps of AT&T Bell Laboratories titan William Shockley. Shockley led the team that plunged into the microcosm of solid-state physics and invented the transistor. At the heart of all-digital electronics, this invention still reverberates through the world economy and imposes its centrifugal rules of enterprise.

This law of the microcosm dictates exponential rises in computer efficiency as transistors become smaller. It is this law that drives the bulk of the world's computations to ever-cheaper machines and pushes intelligence from the center to the fringes of all networks. Today the microcosm is converging with the telecosm and igniting a new series of industrial shocks and surprises.

The convergence of microcosm and telecosm in an array of multimedia industries—from personal intelligent communicators to video teleputers to digital films and publishing—is now the driving force of world economic growth. John Sculley, chairman and CEO of Apple Computer, has projected that by 2002 there will be a global business in multimedia totaling some \$3.5 trillion—close to the size of the entire U.S. economy in the early 1980s.

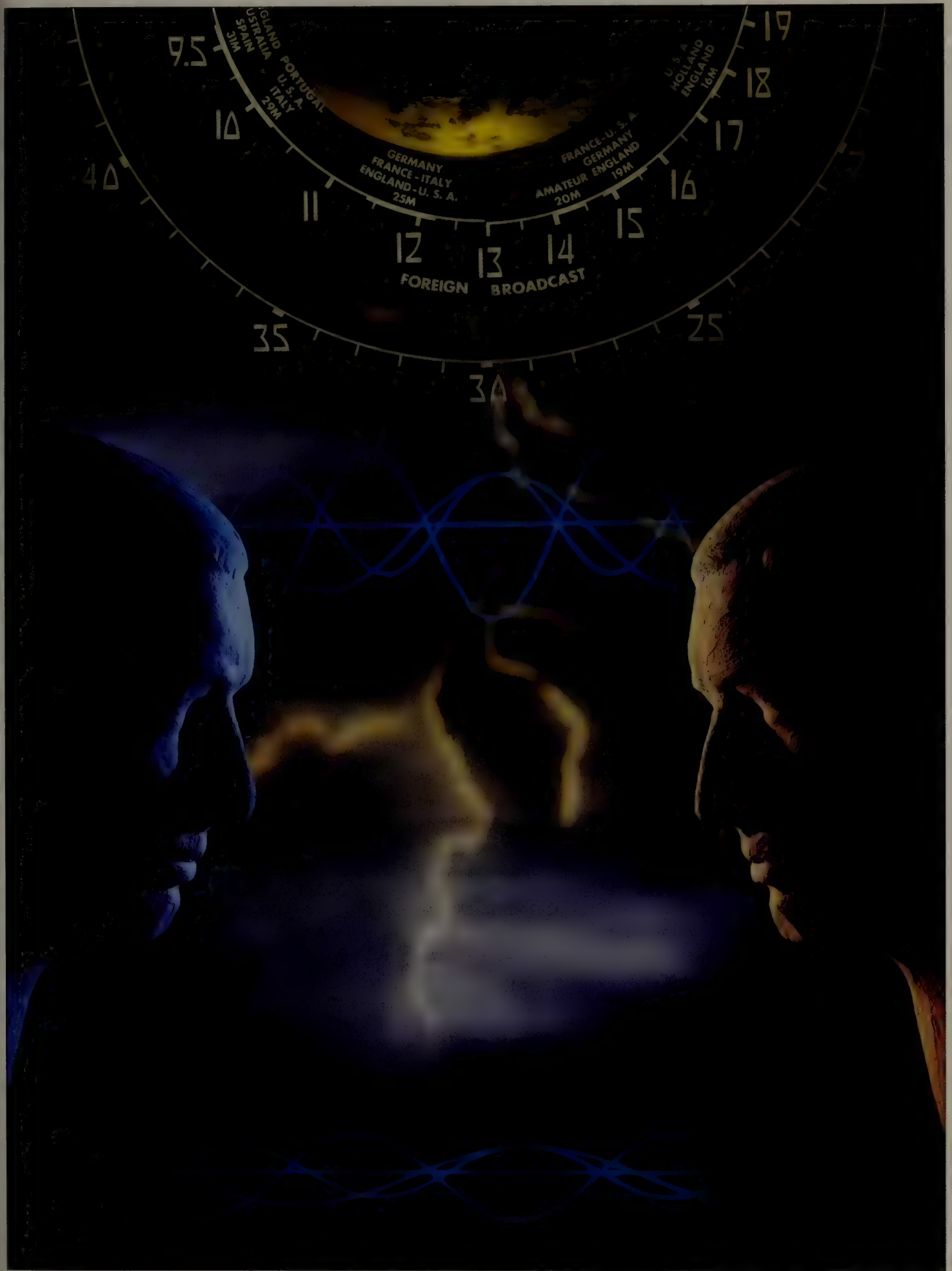
This new world of computer communications will break

down into two domains—the fibersphere and the atmosphere. The fibersphere is the domain of all-optical networks, with both communications power—bandwidth—and error rate improving by factors in the millions. In "Into the Fibersphere" (Forbes ASAP, December 7, 1992), we saw that the potential capacity for communications in the fibersphere is 1,000 times greater than all the currently used frequencies in the air—and so radically error-free that it mandates an entirely new model of wired telecommunications. Now we will discover that the atmosphere will offer links as mobile and ubiquitous as human beings are. It thus will force the creation of an entirely new model of wireless networks.

In one sense, Sculley's \$3.5 trillion dream can be

seen as the pot of gold at the end of Maxwell's rainbow. In 1865, in a visionary coup that the late Richard Feynman said would leave the American Civil War of the same decade as a mere "parochial footnote" by comparison, Scottish physicist James Clerk Maxwell discovered the electromagnetic spectrum. Encompassing nearly all the technolo-

GEORGE GILDER'S
TELECOSM
"The New Rule
of Wireless"



gies imagined by Sculley, Maxwell's rainbow reaches from the extremely low frequencies (and gigantic wavelengths) used to communicate with submarines all the way through the frequencies used in radio, television and cellular phones, on up to the frequencies of infrared used in TV remotes and fiber optics, and beyond that to visible and ultraviolet light and X-rays. In a fabulous feat of unification, Maxwell reduced the entire spectrum to just four equations in vector calculus. He showed that all such radiations move at the speed of light—in other words, the wavelength times the frequency equals the speed of light. These equations pulse at the heart of the information economy today.

Virtually all electromagnetic radiation can bear information, and the higher the frequencies, the more room they provide for bearing information. As a practical matter, however, communications engineers have aimed low, thronging the frequencies at the bottom of the spectrum, comprising far less than one percent of the total span.

The vast expansion of wireless communications forecast by Sculley, however, will require the use of higher frequencies far up Maxwell's rainbow. This means a return to the insights of another great man who walked the halls of Bell Labs in the late 1940s at the same time as future Nobel laureate William Shockley, and who left the world transformed in his wake.

In 1948, the same year that Shockley invented the transistor, Claude Shannon invented the information theory that underlies all modern communications. At first encounter, information theory is difficult for nonmathematicians, but computer and telecom executives need focus on only a few key themes. In defining how much information can be sent down a noisy channel, Shannon showed that engineers can choose between narrowband high-powered solutions and broadband low-powered solutions.

FROM LONG & STRONG TO WIDE & WEAK
Assuming that usable bandwidth is scarce and expensive, most wireless engineers have strived to economize on it. Just as you can get your message through in a crowded room by talking louder, you can overcome a noisy channel with more powerful signals. Engineers therefore have pursued a strategy of long and strong: long wavelengths and powerful transmissions with the scarce radio frequencies at the bottom of the spectrum.

Economizing on spectrum, scientists created mostly ana-

log systems such as AM radios and televisions. Using every point on the wave to convey information and using high power to overcome noise and extend the range of signals, the long and strong approach seemed hugely more efficient than digital systems requiring complex manipulation of long strings of on-off bits.

Ironically, however, the long and strong policy of economizing on spectrum led to using it all up. When everyone talks louder, no one can hear very well. Today, the favored regions at the bottom of the spectrum are so full of spectrum-hogging radios, pagers, phones, television, long-distance, point-to-point, aerospace and other uses that heavy-breathing experts speak of running out of "air."

Shannon's theories reveal the way out of this problem. In a counterintuitive and initially baffling redefinition of the nature of noise in a communications channel, Shannon showed that a flow of signals conveys information only to the extent that it provides unexpected data—only to the extent that it adds to what you already know. Another name for a stream of unexpected bits is noise. Termed Gaussian, or white, noise, such a transmission resembles random "white" light, which cloaks the entire rainbow of colors in a bright blur. Shannon showed that the more a transmission resembles this form of noise, the more information it can hold.

Shannon's alternative to long and strong is wide and weak: not fighting noise with electrical power but joining it with noiselike information, not talking louder but talking softer in more elaborate codes using more bandwidth. For example, in transmitting 40 megabits per second—the requirement for truly high-resolution images and sounds—Shannon showed some 45 years ago that using more bandwidth can lower the needed signal-to-noise ratio from a level of one million to one to a ratio of 30.6 to one. This huge gain comes merely from increasing the bandwidth of the signal from two megahertz (millions of cycles per second) to eight megahertz. That means a 33,000-fold increase in communications efficiency in exchange for just a fourfold increase in bandwidth.

Such an explosion of efficiency radically limits the need to waste watts in order to overcome noise. More communications power comes from less electrical power. Thus, Shannon shows the way to fulfill Sculley's vision of universal low-powered wireless communications.

This vision of wide and weak is at the heart of the most

Such an explosion of efficiency radically limits the need to waste watts in order to overcome noise. More communications power comes from less electrical power. Thus, Shannon shows the way to Sculley's vision.

promising technologies of today, from the advanced digital teleputer sets of American HDTV to ubiquitous mobile phones and computers in so-called personal communications networks (PCNs). Shannon's theories of the telecosm provide the basic science behind both Sculley's dream and Hovnanian's video spectrum breakthrough.

Shannon's world, however, is not nirvana, and there is no free lunch. Compensating for the exponential rise in communications power is an exponential rise in complexity. Larger bandwidths mean larger, more complex codes and exponentially rising burdens of computation for the decoding and error-correcting of messages. In previous decades, handling 40 megabits per second was simply out of the question with existing computer technology. For the last 30 years, this electronic bottleneck has blocked the vistas of efficient communication opened by Shannon's research.

In the 1990s, however, the problem of soaring complexity has met its match—and then some—in exponential gains of computer efficiency. Not only has the cost-effectiveness of microchip technology been doubling every 18 months but the pace of advance has been accelerating into the 1990s. Moreover, the chips central to digital communications—error correction, compression, coding and decoding—are digital signal processors. As we have seen, the cost-effectiveness of DSPs has been increasing—in millions of computer instructions per second (MIPS) per dollar—some tenfold every two years.

This wild rush in DSPs will eventually converge with the precipitous plunge in price-performance ratios of general-purpose microprocessors. Led by Silicon Graphics' impending new TFP Cray supercomputer on a chip, Digital Equipment's Alpha AXP device and Hewlett Packard's Precision Architecture 7100, micros are moving beyond 100-megahertz clock rates. They are shifting from a regime of processing 32-bit words at a time to a regime of processing 64-bit words. This expands the total addressable memory by a factor of four billion. Together with increasing use of massively parallel DSP architectures, these gains will keep computers well ahead of the complexity problem in broadband communications.

What this means is that while complexity rises exponentially with bandwidth, computer efficiencies are rising even faster. The result is to open new vistas of spectrum in the atmosphere as dramatic as the gains of spectrum so far achieved in the fibersphere.

ATTACKING THROUGH THE AIR
Hovnanian's campaign into the spectrum began when a cable company announced one day in 1985 that under the Cable Act of 1984 and franchise rights granted by local governments, it had the right to wire one of his housing developments then under construction. Until that day, Hovnanian's own company could package cable with his homes through what are called satellite master antenna TV systems. In essence, each Hovnanian development had its own cable head end where programs are collected and sent out to subscribers.

Air delivery of cable television programming had long seemed unpromising. Not only was there too little spectrum available to compete with cable, but what spectrum there was, was guarded by the FCC.

When the cable company, now Monmouth Cable Vision, went to court and its claim was upheld by a judge, Hovnanian sought alternatives. First he flirted with the idea of having the phone company deliver compressed video to his homes. In 1986, in the era before FCC Commissioner Alfred Sikes, that was both illegal and impractical. Then he met Bernard Bossard and decided to attack through the air. An early pioneer in microchips who had launched a semiconductor firm and eventually sold it to M/A COM, Bossard was familiar with both the soaring power of computers and the murky problems of broadband noise that have long restricted the air to a small number of broadcast AM TV stations.

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unpromising. Not only was there too little spectrum available to compete with cable, but what spectrum there was, was guarded by the FCC and state public utilities commissions.

Nonetheless, in the early 1990s "wireless cable" did become a niche market, led by Microband Wireless Cable and rivals and imitators across the land. Using fragments of a frequency band between 2.5 and 2.7 gigahertz (billions of cycles per second), Microband, after some financial turmoil, now profitably broadcasts some 16 channels to 35,000 New York City homes in line of sight from the top of the Empire State Building. As long as they are restricted to a possible maximum of 200 megahertz and use AM, however, wireless firms will not long be able to compete with the cable industry. Cable companies offer an installed base of potential gigahertz connections and near universal coverage.

Having spent much of his life working with microwaves for satellites and the military, Bossard had a better idea. He claimed he could move up the spectrum and pioneer on frontiers of frequency between 27.5 and 29.5 gigahertz, pre-

viously used chiefly in outer space. That would mean he could command in the air some half a million times the communications power, or bandwidth, of typical copper telephone links, some ten times the bandwidth of existing wireless cable, some four times the bandwidth of the average cable industry coaxial connection, and twice the bandwidth of the most advanced cable systems.

The conventional wisdom was that these microwaves (above about 12 gigahertz) are useless for anything but point-to-point transmissions and are doubtful even for these. For radio communication, the prevailing folklore preferred frequencies that are cheap to transmit long distances and that can penetrate buildings and tunnels, bounce off the ionosphere or scuttle across continents along the surface of the earth. The higher the frequency, the less it can perform these feats essential to all broadcasting—and the less it can be sent long distances at all.

Moreover, it was believed, these millimeter-sized microwaves not only would fail to penetrate structures and other obstacles but would reflect off them and off particles in the air in a way that would cause hopeless mazes of multipath. Multipath would be translated into several images, i.e., ghosts, on the screen.

Finally, there was the real show-stopper. Everyone knew that these frequencies are microwaves. The key property of microwaves, as demonstrated in the now ubiquitous ovens, is absorption by water. Microwaves cook by exciting water molecules to a boil. Microwave towers are said to kill birds by irradiating their fluids. Microwave radar systems won't work in the rain. Mention microwaves as a possible solution to the spectrum shortage, and everyone—from editors at *Forbes* to gurus at Microsoft, from cable executives to Bell Labs researchers—laughs and tells you about the moisture problem.

So it was no surprise that when in 1986 Bossard went to M/A COM and other companies and financiers with his idea of TV broadcasting at 28 gigahertz, he was turned down flat. Amid much talk of potential "violations of the laws of physics," jokes about broiling pigeons and warnings of likely resistance from the FCC, he was spurned by all. In fairness to his detractors, Bossard had no license, patent or prototype at the time. But these holes in his plan did not deter Vahak Hovnanian and his son Shant from investing many millions of dollars in the project. It could be the best investment the Hovnanian tycoons ever made.

NEW RULE OF RADIO

For 35 years, the wireless communications industry has been inching up the spectrum, shifting slowly from long and strong wavelengths toward wide and weak bands of shorter wavelengths. Mobile phone services have moved from the 1950s radio systems using low FM frequencies near 100 megahertz, to the 1960s spectrum band of 450 megahertz, to the current cellular band of 900 megahertz accommodating more than 10 million cellular subscribers in the U.S.

During the 1990s, this trend will accelerate sharply. Accommodating hundreds of millions of users around the world, cellular communications will turn digital, leap up the spectrum and even move into video. Shannon's laws show that this will impel vast increases in the cost-effectiveness of communications.

In general, the new rule of radio is the shorter the transmission path, the better the system. Like transistors on semiconductor chips, transmitters are more efficient the more closely they are packed together. As Peter Huber writes in his masterly new book, *The Geodesic Network 2*, the new regime favors "geodesic networks," with radios intimately linked in tiny microcells. As in the law of the microcosm, the less the space, the more the room.

This rule turns the conventional wisdom of microwaves upside down. For example, it is true that microwaves don't travel far in the atmosphere. You don't want to use them to transmit 50,000 watts of Rush Limbaugh over 10 midwestern states, but to accommodate 200 million two-way communicators will require small cells; you don't want the waves to travel far. It is true that microwaves will not penetrate most buildings and other obstacles, but with lots of small cells, you don't want the waves to penetrate walls to adjacent offices.

Microwaves require high-power systems to transmit, but only if you want to send them long distances. Wattage at the receiver drops off in proportion to the fourth power of the distance from the transmitter. Reducing cell sizes as you move up the spectrum lowers power needs far more than higher frequencies increase them. Just as important, mobile systems must be small and light. The higher the frequency, the smaller the antenna and the lighter the system can be.

All this high-frequency gear once was prohibitively expensive. Any functions over two gigahertz require gallium arsenide chips, which are complex and costly. Yet the

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cost of gallium arsenide devices is dropping every day as their market expands. Meanwhile, laboratory teams are now tweaking microwaves out of silicon. In the world of electronics—where prices drop by a third with every doubling of accumulated sales—any ubiquitous product will soon be cheap.

The law of the telecosm dictates that the higher the frequency, the shorter the wavelength, the wider the bandwidth, the smaller the antenna, the slimmer the cell and ultimately, the cheaper and better the communication. The working of this law will render obsolete the entire idea of scarce spectrum and launch an era of advances in telecommunications comparable to the recent gains in computing. Transforming the computer and phone industries, the converging spirits of Maxwell, Shannon and Shockley even pose a serious challenge to the current revolutionaries in cellular telephony.

THE NEW PC REVOLUTION: PCN Many observers herald the huge coming impact of wireless on the computer industry, and they are right. But this impact will be dwarfed by the impact of computers on wireless.

In personal communications networks (PCN), the cellular industry today is about to experience its own personal computer revolution. Just as the personal computer led to systems thousands of times more efficient in MIPS per dollar than the mainframes and minicomputers that preceded it, PCNs will bring an exponential plunge of costs. These networks will be based on microcells often measured in hundreds of meters rather than in tens of miles and will interlink smart digital appliances, draining power in milliwatts rather than dumb phones using watts. When the convulsion ends later this decade, this new digital cellular phone will stand as the world's most pervasive PC. As mobile as a watch and as personal as a wallet, these PICOs will recognize speech, navigate streets, take notes, keep schedules, collect mail, manage money, open the door and start the car, among other computer functions we cannot imagine today.

Like the computer establishment before it, current cellular providers often seem unprepared for this next computer revolution. They still live in a world of long and strong—high-powered systems at relatively low frequencies and with short-lived batteries—rather than in a PCN world of low-power systems at microwave frequencies and with bat-

teries that last for days.

Ready or not, though, the revolution will happen anyway, and it will transform the landscape over the next five years. We can guess the pattern by considering the precedents. In computers, the revolution took 10 years. It began in 1977 when large centralized systems with attached dumb terminals commanded nearly 100 percent of the world's computer power and ended in 1987 with such large systems commanding less than one percent of the world's computer power. The pace of progress in digital electronics has accelerated sharply since the early 1980s. Remember yesterday, when digital signal processing (DSP)—the use of specialized computers to convert, compress, shape and shuffle digital signals in real time—constituted an exorbitant million-dollar obstacle to all-digital communications? Many current attitudes toward wireless stem from that time, which was some five years ago. Today, digital signal processors are the fastest-moving technology in all computing. Made on single chips or multichip modules, DSPs are increasing their cost-effectiveness tenfold every two years. As radio pioneer Donald Steinbrecher says, "That changes wireless from a radio business to a computer business."

Thus, we can expect the cellular telephone establishment to reach a crisis more quickly than the mainframe establishment did. The existing cellular infrastructure will

*D*igital signal processors are increasing their cost-effectiveness tenfold every two years. As Donald Steinbrecher says, "That changes wireless from a radio business to a computer business."

persist for vehicular use.

As the intelligence in networks migrates to microcells, the networks themselves must become dumb. A complex network, loaded up with millions of lines of software code, cannot keep up with the efflorescent diversity and creativity among ever more intelligent digital devices on its periphery. This rule is true for the broadband wire links of fiber optics, as intelligent switching systems give way to passive all-optical networks. It is also true of cellular systems.

Nick Kauser, McCaw Cellular Communications' executive vice-president and chief of technology, faced this problem early in 1991 when the company decided to create a North American Cellular Network for transparent roaming throughout the regions of Cellular One. "The manufacturers always want to sell switches that do more and more. But complex switches take so long to program that you end up doing less and less," says Wayne Perry, McCaw vice-chairman. Each time Kauser tried to change software code in one of McCaw's Ericsson switches, it might have taken six months. Each time he wanted to add customer names

above a 64,000 limit, Ericsson tried to persuade him to buy a new switch. The Ericsson switches, commented one McCaw engineer, offer a huge engine but a tiny gas tank. The problem is not peculiar to Ericsson, however; it is basic to the very idea of complex switch-based services on any supplier's equipment.

When McCaw voiced frustration, one of the regional Bell operating companies offered to take over the entire problem at a cost of some \$200 million. Instead, Kauser created a Signaling System 7 (SS-7) network plus an intelligent database on four Tandem fault-tolerant computers, for some \$15 million. Kauser maintains that the current services offered by North American Cellular could not be duplicated for 10 times that amount, if at all, in a switch-based system. Creating a dumb network and off-loading the intelligence on computer servers saved McCaw hundreds of millions of dollars.

The law of the microcosm is a centrifuge, inexorably pushing intelligence to the edges of networks. Telecom equipment suppliers can no more trap it in the central switch than IBM could monopolize it in mainframes.

Kauser should recognize that this rule applies to McCaw no less than to Ericsson. His large standardized systems with 30-mile cells and relatively dumb, high-powered phones resemble big proprietary mainframe networks. In the computer industry, these standardized architectures gave way to a mad proliferation of diverse personal comput-

er nets restricted to small areas and interlinked by hubs and routers. The same pattern will develop in cellular.

COULD 'CHARLES' UPEND McCAW? Together with GTE and the regional Bell operating company cellular divisions, McCaw is now in the position of DEC in 1977. With its new ally, AT&T, McCaw is brilliantly attacking the mainframe establishment of the wireline phone companies. But the mainframe establishment of wires is not McCaw's real competition. Not stopping at central switches, the law of the microcosm is about to subvert the foundations of conventional cellular technology as well. Unless McCaw and the other cellular providers come to terms with the new PC networks that go by the name of PCNs, they will soon suffer the fate of the minicomputer firms of the last decade. McCaw could well be upended by its founder's original vision of his company—a PICO he called "Charles."

Just as in the computer industry in the late 1970s, the fight for the future is already under way. Complicating the conflict is the influence of European and Japanese forces protecting the past in the name of progress. Under pressure from EEC industrial politicians working with the guidance of engineers from Ericsson, the Europeans have adopted a new digital cellular system called Groupe Speciale Mobile (GSM) after the commission that conceived it. GSM is a very



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conservative digital system that multiplies the number of users in each cellular channel by a factor of three.

GSM uses an access method called time-division multiple access (TDMA). Suggestive of the time-sharing methods used by minicomputers and mainframes to accommodate large numbers of users on centralized computers, TDMA stems from the time-division multiplexing employed by phone companies around the world to put more than one phone call on each digital line. Thus, both the telephone and the computer establishments are comfortable with time division.

Under pressure from European firms eager to sell equipment in America, the U.S. Telephone Industry Association two years ago adopted a TDMA standard similar to the European GSM. Rather than creating a wholly new system exploiting the distributed powers of the computer revolution, the TIA favored a TDMA overlay on the existing analog infrastructure. Under the influence of Ericsson, McCaw and some of the RBOCs took the TDMA bait.

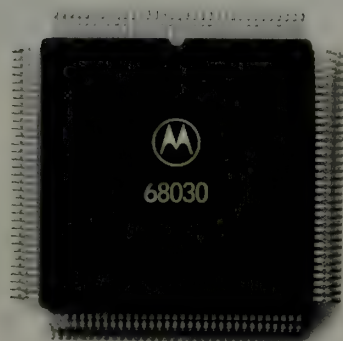
Thus, it was in the name of competitiveness and technological progress, and of keeping up with the Europeans and Japanese, that the U.S. moved to embrace an obsolescent cellular system. It made no difference that the Europeans and Japanese were technologically well in our wake. Just as in the earlier case of analog HDTV, however, the entrepreneurial creativity of the U.S. digital electronics industry is launching an array of compelling alternatives

just in time.

Infusing cellular telephony with the full powers of wide and weak—combining Shannon's vision with computer advances—are two groups of engineers from MIT who spun out to launch new companies. Qualcomm Inc. of San Diego is led by former professor Irwin Jacobs and telecom pioneer Andrew Viterbi. A Shannon disciple whose eponymous algorithm is widely used in digital wire-line telephony, Viterbi now is leading an effort to transform digital wireless telephony. The other firm, Steinbrecher Corp., of Woburn, Mass., is led by an inventor from the MIT Radio Astronomy Lab named Donald Steinbrecher.

Like Bernie Bossard and Vahak Hovnanian, the leaders of Qualcomm and Steinbrecher received the ultimate accolade for an innovator: They were all told their breakthroughs were impossible. Indeed, the leaders at Qualcomm were still contending that Steinbrecher's system would not work just weeks ago when PacTel pushed the two firms together. Now they provide the foundations for a radical new regime in distributed wireless computer telephony.

SIGNALS IN PSEUDONOISE
Ten years ago at Linkabit, the current leaders of Qualcomm conceived and patented the TDMA technology adopted as the U.S. standard by the Telephone Industry Association. Like analog HDTV, it was a powerful advance for its time. But



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MOTOROLA

Microprocessor and Memory Technologies Group

even then, Viterbi and Jacobs were experimenting with a Shannonesque technology.

A classic example of the efficacy of wide and weak, CDMA exploits the resemblance between noise and information. The system began in the military as an effort to avoid jamming or air-tapping of combat messages. Qualcomm brings CDMA to the challenge of communications on the battlefronts of big-city cellular.

Rather than compressing each call into between three and 10 tiny TDMA time slots in a 30-kilohertz cellular channel, Qualcomm's CDMA spreads a signal across a comparatively huge 1.25-megahertz swath of the cellular spectrum. This allows many users to share the same spectrum space at one time. Each phone is programmed with a specific pseudonoise code, which is used to stretch a low-powered signal over a wide frequency band. The base station uses the same code in inverted form to "despread" and reconstitute the original signal. All other codes remain spread out, indistinguishable from background noise.

Jacobs compares TDMA and CDMA to different strategies of communication at a cocktail party. In the TDMA analogy, each person would restrict his or her talk to a specific time slot while everyone else remains silent. This system would work well as long as the party was managed by a dictator who controlled all conversations by complex rules and a rigid clock. In CDMA, on the other hand, everyone can talk at once but in different languages. Each person listens for messages in his or her own language or code and ignores all other sounds as background noise. Although this system allows each person to speak freely, it requires constant control of the volume of the speakers. A speaker who begins yelling can drown out surrounding messages and drastically reduce the total number of conversations that can be sustained.

For years, this problem of the stentorian guest crippled CDMA as a method of increasing the capacity of cellular systems. Spread spectrum had many military uses because its unlocalized signal and cryptic codes made it very difficult to jam or overhear. In a cellular environment, however, where cars continually move in and out from behind trucks, buildings and other obstacles, causing huge variations in power, CDMA systems would be regularly swamped by stentorian guests. Similarly, nearby cars would tend to dominate faraway vehicles. This was termed the near-far problem. When you compound this challenge with a static of multipath signals causing hundreds of 10,000-to-1

gyrations in power for every foot traveled by the mobile unit—so-called Rayleigh interference pits and spikes—you can comprehend the general incredulity toward CDMA among cellular cognoscenti. Indeed, as recently as 1991, leading experts at Bell Labs, Stanford University and Bellcore confidently told me the problem was a show-stopper; it could not be overcome.

Radio experts, however, underestimate the power of the microcosm. Using digital signal processing, error correction and other microcosmic tools, wattage spikes and pits 100 times a second can be regulated by electronic circuitry that adjusts the power at a rate of more than 800 times a second.

To achieve this result, Qualcomm uses two layers of controls. First is a relatively crude top layer that employs the automatic gain control device on handsets to constantly adjust the power sent by the handset to the level of power received by it from the base station. This rough adjustment does not come near to solving the problem, but it brings a solution into reach by using more complex and refined techniques.

In the second power-control step, the base station measures the handset's signal-to-noise and bit-error ratios once every 1.25 milliseconds (800 times a second). Depending on whether these ratios are above or below a constantly recomputed threshold, the base station sends a positive or negative

pulse, either raising or lowering the power some 25 percent.

Thus, it was in the name of competitiveness and technological progress, and of keeping up with the Europeans and Japanese, that the U.S. moved to embrace an obsolescent cellular system.

DYNAMIC CELLS
Passing elaborate field tests with flying colors, this power-control mechanism has the further effect of dynamically changing the size of cells. In a congested cell, the power of all phones rises to overcome mutual interference. On the margin, these high-powered transmissions overflow into neighboring cells where they may be picked up by adjacent base station equipment. In a quiet cell, power is so low that the cell effectively shrinks, transmitting no interference at all to neighboring cells and improving their performance. This kind of dynamic adjustment of cell sizes is impossible in a TDMA system, where adjacent cells use completely different frequencies and fringe handsets may begin to chirp like Elmer Fudd.

Once the stentorian voice could be instantly abated, power control changed from a crippling weakness of CDMA into a commanding asset. Power usage is a major obstacle

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to the PCN future. All market tests show that either heavy or short-lived batteries greatly reduce the attractiveness of the system. Because the Qualcomm feedback system keeps power always at the lowest feasible level, batteries in CDMA phones actually are lasting far longer than in TDMA phones. CDMA phones transmit at an average of two milliwatts, compared with 600 milliwatts and higher for most other cellular systems.

A further advantage of wide and weak comes in handling multipath signals, which bounce off obstacles and arrive at different times at the receiver. Multipath just adds to the accuracy of CDMA. The Qualcomm system combines the three strongest signals into one. Called a rake receiver and co-invented by Paul Green, currently at IBM and author of *Fiber Optic Networks* (Prentice Hall, 1992), this combining function works even on signals from different cells and thus facilitates hand-offs. In TDMA, signals arriving at the wrong time are pure interference in someone else's time slot; in CDMA, they strengthen the message.

Finally, CDMA allows simple and soft hand-offs. Because all the phones are using the same spectrum space, moving from one cell to another is easy. CDMA avoids all the frequency juggling of TDMA systems as they shuffle calls among cells and time slots. As the era of PCN microcells approaches, this advantage will become increasingly crucial. Cellular systems that spurn Qualcomm today may find themselves in a quagmire of TDMA microcells tomorrow. Together, all the gains from CDMA bring about a tenfold increase over current analog capacity. In wireless telephony above all, wide and weak will prevail.

Like any obsolescent scheme challenged by a real innovation—and like minicomputers and mainframes challenged by the PC—TDMA is being sharply improved by its proponents. The inheritors of the Linkabit TDMA patents at Hughes and International Mobile Machines Corp. (IMMC) have introduced extended TDMA, claiming a 19-fold advance over current analog capacity. Showing a conventional cellular outlook, however, E-TDMA fatally adopts the idea of increasing capacity by lowering speech quality. This moves in exactly the wrong direction. PCN will not triumph through compromises based on a scarce-spectrum mentality. PCN will multiply bandwidth to make the acoustics of digital cellular even better than the acoustics of wire-line phones, just as the acoustics of digital CDs far excel the acoustics of analog records.

Riding the microcosmic gains of digital signal processing, CDMA inherently offers greater room for improvement than TDMA does. Bringing the computer revolution to cellular telephony, CDMA at its essence replaces frequency shuffling with digital intelligence. Supplanting the multiple radios of TDMA—each with a fixed frequency—are digital-signal-processing chips that find a particular message across a wide spectrum swath captured by one broadband radio.

With the advance in digital electronics, the advantage of CDMA continually increases. As the most compute-intensive system, CDMA gains most from the onrushing increases in the cost-effectiveness of semiconductor electronics. Qualcomm recently announced that it has reduced all the digital signal processing for CDMA into one application-specific chip.

For all the indispensable advances of CDMA, however, Qualcomm cannot prevail alone. It brilliantly executes the move to digital codes, but proprietary mainframe computer networks are digital, too. As presently conceived, CDMA still aspires to be a cellular standard using the same mainframe architecture of mobile telephone switching offices that now serve the analog cellular system. In itself the Qualcomm solution does little to move cellular toward the ever cheaper, smaller and more open architectures that now dominate network comput-

ing and will shape PCN.

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HEARING FEATHERS CRASH AMID HEAVY METAL

Consummating the PCN revolution—with its millions of microcells around the globe and its myriad digital devices and frequencies—will require a fundamental breakthrough in cellular radio technology. In the new Steinbrecher minicell introduced early this month at the Cellular Telephone Industry Association show, that breakthrough is at hand. The first true PC server for PCN, this small box ultimately costing a few thousand dollars will both replace and far outperform a 1,000-square-foot base station costing more than a million dollars.

Once again, in an entrepreneurial economy, crucial innovations come as an utter surprise to all the experts in the field. Donald Steinbrecher began in the Radio Astronomy Lab at MIT in the 1960s and early 1970s, creating receivers that could resolve a random cosmic ray among a mass of

electromagnetic noise. This required radios with huge dynamic range—radios that could hear a feather drop at a heavy metal rock concert. He and his students solved this intractable problem by creating unique high-performance receivers and frequency “mixers.” These could process huge spans of spectrum with immense variations of power and translate them without loss into intermediate frequencies. Then, computer systems convert the signals from analog to digital and analyze them with digital signal processors.

Moving out to begin his own company in 1973, Steinbrecher and his colleagues made several inventions in the fields of radar and digital signal analysis. At first, most of their customers were national security contractors in the intelligence field. For example, Steinbrecher supplied the radios for the ROTH (remote over the horizon radar) systems that became famous for their role in the war against airborne drug traffic. Then in 1986, the company was asked if its equipment could work in the cellular band.

After cosmic rays and battlefield radar, the cellular band was easy. When he saw that the digital signal processors at the heart of his systems were dropping in price tenfold every two years, Steinbrecher knew that his esoteric radios could become a consumer product.

Translated to cellular, this technology opens entire new frontiers for wireless telephony. Rather than tuning into one fixed frequency as current cellular radios do, Steinbrecher's cells can use a high-dynamic-range digital radio to down-convert and digitize the entire cellular band. TDMA, CDMA, near or far, analog cellular, video, voice or data, in any combination, it makes no difference to the Steinbrecher system. His minicell converts them all at once to a digital bit stream. The DSPs take over from there, sorting out the TDMA and CDMA signals from the analog signals and reducing each to digital voice. To the extent the Steinbrecher system prevails, it would end the need for hybrid phones and make possible a phased shift to PCN or a variety of other digital services.

Hoping to use Qualcomm chipsets and other technology, Steinbrecher could facilitate the acceptance of CDMA. For CDMA, the minicell provides a new, far cheaper radio front end that offers further relief to the near-far problem and is open to the diverse codes and fast-moving technologies of PCN. For the current cellular architecture, however, Steinbrecher offers only creative destruction, doing for large base stations what the integrated circuit did for racks of vacuum tubes in old telephone switches.

In essence, the new minicell replaces a rigid structure of giant analog mainframes with a system of wireless local area networks. Reconciling a variety of codes and technologies, the Steinbrecher devices resemble the smart hubs and routers from SynOptics Communications and Cisco Systems that are transforming the world of wired computer networks.

Best of all, at a time when the computer industry is preparing a massive invasion of the air, these wide and weak radios can handle voice, data and even video at the same time. Further, by cheaply accommodating a move from scores of large base stations to scores of thousands of minicells per city—on poles, down alleys or in elevator shafts—the system fulfills the promise of the computer revolution as a spectrum multiplier. Since each new minicell can use all the frequencies currently used by a large cell site, the multiplication of cells achieves a similar multiplication of bandwidth.

Finally, the Steinbrecher receivers can accommodate the coming move into higher frequencies. Banishing once and for all the concept of spectrum scarcity, these high-dynamic-range receivers can already handle frequencies up to the “W band” of 90 gigahertz and more.

*The future of wireless is
boundless bandwidth,
accomplished through
the Shannon strategy
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smaller cells with
lower power at higher
frequencies.*

BOUNDLESS BANDWIDTH
The future of wireless communications is boundless bandwidth, accomplished through the Shannon strategy of

wide and weak signals, moving to ever smaller cells with lower power at higher frequencies. The PCN systems made possible by Qualcomm and Steinbrecher apply this approach chiefly to voice and data. Recent announcements by Bossard and Hovnanian extend the concept to television video as well. Last December, they disclosed that their company, Cellular Vision, was already wirelessly delivering 49 cable television channels to 350 homes near Brighton Beach, Long Island, in the 28-gigahertz band. They declared a plan to soon sign up some 5,000 new customers a month all over New York.

Among engineers in cellular and cable firms, Cellular Vision evokes the same responses of incredulity and denial familiar at Qualcomm and Steinbrecher. Like them, Bossard is resolutely on the right side of the Shannon and Shockley divide. In answer to the multitude of qualms and objections and demurrals, all three companies cite the huge benefits of more bandwidth. Qualcomm can assign some 416 times as much bandwidth to each call as a current cellular or TDMA system. Steinbrecher's minicell receivers can

process 4,160 times as much bandwidth as an analog cell site or TDMA radio.

Hovnanian achieves some 300 times the bandwidth of a broadcast TV station and some three times the bandwidth of even a typical cable head end. For Hovnanian's so-called multipoint local distribution system, the FCC has allocated a total of two gigahertz between 27.5 and 29.5 gigahertz—one gigahertz for TV and one gigahertz for experimental data and phone service. This large swath of spectrum allows Cellular Vision to substitute bandwidth for power. Using FM rather than the AM system of cable, Cellular Vision gains the same kind of increased fidelity familiar in FM radio.

Assigning 20 megahertz to each channel—three times the six megahertz of an analog system—Cellular Vision proves the potency of wide and weak by getting 20 decibels—some 10 times—more signal quality. These extra decibels come in handy in the rain.

With a radius of three miles, Cellular Vision cells are about 100 times smaller than telephone cells. Transmitting only 10 milliwatts per channel over a three-mile radius, the system gets far better signal-to-noise ratios than the three-watt radios of cellular phones or the multikilowatt systems of AM radio or television broadcasts. The millimeter wavelengths at 28 gigahertz allow narrowband high-gain antennas that lock onto the right signal and isolate it from neighboring cells. At 28 gigahertz, small antennas command the performance of much larger ones (for example, a six-inch antenna at 28 gigahertz is equivalent to a three-foot antenna at 4 gigahertz or a 300-foot antenna at broadcast television frequencies).

In Brighton Beach the receiving antennas, using a fixed-phased-array technology, are just four inches square, and the transmitting antennas deliver 49 channels from a one-inch omnidirectional device on a box the size of a suitcase. Between cells, these transmitters can send programming and other information through a conventional point-to-point microwave link.

SINGING IN THE RAIN
So what happens in the rain? Well, it seems that Cellular Vision does better than conventional cable. When you have small cells in geodesic low-power wireless networks using the full computational resources of modern microchips, you have plenty of extra decibels in your signal-to-noise budget to endure the most violent storms. Indeed, the 350 Brighton

Beach customers of Cellular Vision received continuous service during the November 1992 near hurricane in New York, which brought floods that interrupted many cable networks for hours. One competitive advantage of Cellular Vision over cable seems to be less vulnerability to water.

Moving television radically toward the regime of wide and weak, Bossard and the Hovnanians have changed the dimensions of the air. However, they cannot escape the usual burdens of the innovator. Any drastic innovation must be some 10 times as good as what it replaces. Otherwise, the installed base, engineering momentum and customer loyalty of the incumbents will prevail against it.

A s computer companies have already learned, phone and cable companies will discover that self-cannibalization is the only way to succeed in this era—the only way to stop others from capturing the prize.

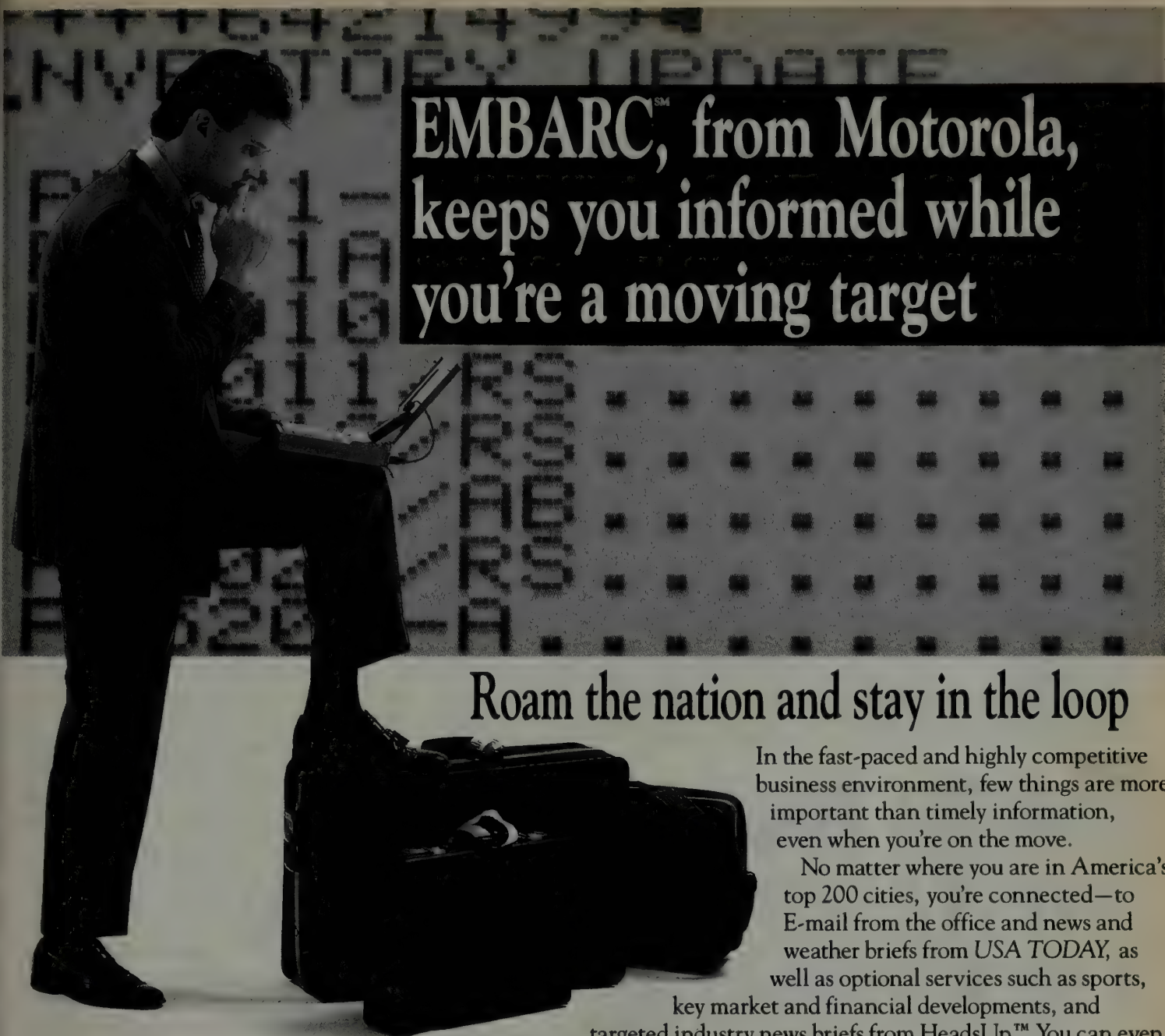
Cellular Vision faces a wired cable system with some \$18 billion in installed base. Already deploying fiber at a fast pace, cable companies plan to move within the next year toward digital compression schemes that increase capacity or resolution by a factor of between six and 10 (depending on the character of the programming). That means some 500 digital channels or more. TCI, the leading cable company, has ordered some one million cable converter and decompression boxes from General Instruments' Jerrold subsidiary for delivery late in 1993. In the U.S. cable industry, Hovnanian faces an aggressively moving target. Most cable experts doubt he can make much of a dent.

This view may be shortsighted. Clearly, Cellular Vision—and its likely imitators—can compete in

the many areas with incompetent cable systems, in areas yet unreached by cable or in new projects launched by developers such as the Hovnanians. In the rest of the world, cable systems are rare. Cellular Vision is finding rich opportunities abroad, from Latvia to New Zealand. Most of all, as time passes, Cellular Vision might find itself increasingly well positioned for a world of untethered digital devices.

Such a cellular system could be adapted to mobile telephone or computer services. With a bit-error rate of one in 10 billion, it could theoretically transmit computer data without error correction. With one gigahertz of bandwidth, the system could function easily as a backbone for PCN applications, collecting calls from handsets operating at lower frequencies and passing them on to telephone or cellular central offices or to intelligent network facilities of the local phone companies.

The future local loop will combine telephone, teleputer and digital video services, together with speech recognition and other complex features, in patterns that will differ from neighborhood to neighborhood. Easily customizable from



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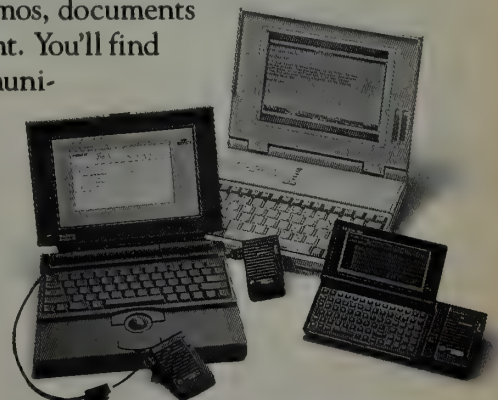
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cell to cell, a system like Bossard's might well offer powerful advantages.

In an era of bandwidth abundance, the Negroponte switch—with voice pushed to the air and video onto wires—may well give way to this division between fibersphere and atmosphere. With the fibersphere offering virtually unlimited bandwidth for fixed communications over long distances, the local loop will be the bottleneck, thronged with millions of wireless devices. Under these conditions, a move to high-frequency cellular systems is imperative to carry the increasing floods of digital video overflowing from the fibersphere.

In any case, led by Qualcomm, Steinbrecher and Cellular Vision, a new generation of companies is emerging to challenge the assumptions and structures of the existing information economy. All these companies are recent startups, with innovations entirely unexpected by international standards bodies, university experts and government officials. They are the fruit of an entrepreneurial America, guided by the marketplace into the microcosm and telecosm.

WHY IMITATE EUROPEAN FAILURES? Meanwhile, the European and Japanese experiences with government-guided strategies should give pause to proponents of similar policies here. Thirty years of expensive industrial policy targeting computers has left the Europeans with no significant computer firms at all. The Japanese have done better, but even they have been losing market share across the board to the U.S.

In the converging crescendos of advance in digital wireless telephony and computing, progress is surging far beyond all the regulatory maps and guidebooks of previous years. If the entire capacity of the 28-gigahertz band, renewed every three miles, is open to telephony and video, bandwidth will be scarcely more limiting in wireless than it is in glass.

In this emerging world of boundless bandwidth, companies will prevail only by transcending the folklore of scarcity and embracing the full promise of the digital dawn. In an era of accelerating transition, the rule of success will be self-cannibalization. Wire-line phone companies are not truly profitable today; their

reported earnings all spring from slow depreciation of installed plant and equipment that are fast becoming worthless. As George Calhoun of IMMC demonstrates in his superb new book, *Wireless Access and the Local Telephone Network* (Artech, 1992), new digital wireless connections are already less than one-third the cost of installing wire-line phones. For the RBOCs, aggressively attacking their own obsolescent enterprises is their only hope of prosperity.

As Joseph Schlosser of Coopers & Lybrand observes, self-cannibalization will not appear to be in the financial interests of the established firms; it will not prove out in net-present-value terms. There will be no studies to guarantee its success. Executives will have to earn their pay by going with their gut. As semiconductor and computer companies have already learned, phone and cable companies will discover that self-cannibalization is the only way to succeed in this era—the only way to stop others from capturing the heart of your business.

This is the lesson of the last decade. When Craig McCaw sold his cable properties and plunged into cellular telephony and \$2 billion of Michael Milken's junk bond debt, there was no way to prove him right. Today AT&T is preparing to launch him as a rival to Bill Gates as the nation's richest man. Yet McCaw cannot rest on his laurels; the hour of the cannibal is at hand.

In theory, the transition should not be difficult for this resourceful and ingenious entrepreneur, who has long been a leading prophet of ubiquitous wireless phones and computers—his predicted personal digital assistant, "Charles." But a company that has paid billions for its 25-megahertz national swath of long and strong frequencies faces especially acute dilemmas in moving toward a regime of wide and weak. As a man—and company—that has made such transitions before, McCaw is favored by history and by AT&T. As a giant pillar of the new establishment, though, McCaw may find it as difficult to shift gears as did the computer establishment before him. The stakes are even higher. The next decade will see the emergence of fortunes in ever-changing transmutations of PCN, digital video, multimedia and wireless computers that dwarf the yields of cable and cellular. The window of opportunity opens wide and weak.

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BY JEFFREY YOUNG

Knowing the Way to Santa Fe

These days, all you need to run a \$10 million consulting business from down on the ranch—besides talent and savvy, of course—are an electronic lasso and an airborne pony express.

ON A CRISP and cold January morning in Santa Fe, N. Mex., a sweet blue haze of piñon smoke hangs over Tesuque, a village and river valley a few miles north of town. Named after the Native American tribe whose pueblo stands nearby amid a jumble of mobile homes and bingo parlors, the fertile valley is now dotted with multimillion-dollar postmodern adobe houses.

Chris Leinberger, one of the three principals in Lesser & Weitzman, the country's largest real estate and advisory appraisal firm, is sitting at an oxcart-wheel conference table in the guest house and office complex of his 13-acre spread. In the reception room an assistant—his only local employee—is handling the phones and computers. Looking enviably at home beneath the hand-hewn beams and layered twigs that form traditional New Mexican adobe ceilings, Leinberger is dressed for another day at the office in impeccable jeans and well-shined cowboy boots. He looks suspiciously like a man who—in

philosopher Joseph Campbell's phrase—is following his bliss.

"The modern fax machine is what brought me here," Leinberger says. "In 1987, we put [a new] one in each of our offices. Before then, faxing was an incredible hassle—you had to match machines in different formats: groups one, two or three. Nothing about it was automatic. But the new machines really set me free. All of a sudden I realized that I didn't need to be in any particular place anymore."

Shortly thereafter, Leinberger happened to visit Santa Fe with his wife Madeleine and their two children, then aged six and nine, with thoughts about buying a second home. The family lived in Los Angeles at the time, and Leinberger had begun feeling apprehensive at the prospect of his children going through adolescence in L.A.'s "consumer culture—the malls-and-movies scene." During the vacation, with no premeditation or calculation, they decided to move. "The only thing we

thought about was how much we liked it here," he remembers.

This was no lone operator working out of a home office in glorious isolation who could easily move his business anywhere. At the time of the move, Leinberger was the main operations manager for his firm, with each of the company's senior managers reporting directly to him. He personally signed all the checks for the consultancy, whose 30 employees handled 300 or so projects each year. At that time, Lesser & Weitzman maintained offices in Beverly Hills and Newport Beach, Calif., Washington, D.C., and Atlanta. The firm now has 70 employees working on 500 projects per year and \$10 million in revenues. Meanwhile, back at the ranch, Leinberger is still a managing partner.

LEINBERGER, who has written extensively on the changing face of the American landscape, could hardly have found a more appropriate place to break away. He describes himself as a strategic-land-use planner whose firm helps developers, corporations with extensive real estate holdings, and local, state and federal government agencies decide what to do with their land and neighborhoods. The company, known as Robert Charles Lesser & Co. before it merged with a smaller New York City-based commercial appraisal outfit earlier this year, has a blue-chip real estate client list that includes Chrysler Credit Corp., Mitsubishi, Continental Bank, Lockheed, Morgan Stanley, Northrop, Rockefeller and Associates, and Transamerica. The company has also advised such cities as Atlanta, Los Angeles and Santa Fe, as well as the Department of Defense.

Besides the fax machine—his electronic lasso—professional management smarts and an imaginative vision of how modern work can be accomplished are what have allowed Leinberger to run the company from his idyllic spread. As they were building the company in the mid-1980s, he and his first partner, Gadi Kaufmann, worked to make each office an independent entity run by entrepreneurial managers who didn't need or want lots of micromanagement. They tied much of their employees' compensation to performance, then built an extensive weekly reporting system distributed by fax and E-mail, all of which

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allows them to stay on top of existing and upcoming projects without having to gather in some central location. Santa Fe and LA are equally in the loop.

This original concept of a fairly loose confederation held together by individual initiative and responsibility laid the groundwork for Leinberger's great escape. "You simply can't be a control freak to make this work," he says. "You cannot micromanage by long distance. Unless you can successfully delegate, this approach won't work."

Leinberger mentions two other crucial elements that led him to choose Santa Fe: the Albuquerque airport is

only an hour from his front door, so he can quickly be on his way anywhere he needs to go; and there is cellular phone coverage throughout the Santa Fe region. "I couldn't survive without this," he says, pulling his flip phone out of the pocket of his leather jacket to answer a client call.

After he finishes the call he says, rather mournfully, "It looks as if I'll have to stay in New York a little longer than I expected next week." Perhaps the hardest thing about doing business in paradise is that you can't always stay put.

Of course, nothing is perfect—even

in Santa Fe. One of Leinberger's biggest problems is maintaining contact with co-workers, building the kind of camaraderie that comes with the serendipity of water cooler conversation. Part of that necessary human contact is provided by a heavy travel schedule. In the upcoming week he will spend days in Las Vegas and Los Angeles, returning home each evening; one day in Santa Fe and then two days in New York. From there, he will fly on to St. Petersburg, Russia, where he'll spend a week trying to come to grips with the social, political and economic chaos of that country.

"We're working with the govern-



DOER'S PROFILE At home on the range, Chris Leinberger, a principal of L.A.-based real estate consulting firm Lutor & Weitzman, rides herd on the business as a (lap)top hand.

THE COMPUTER BOWL IS FILLING UP.

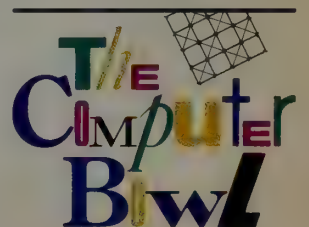


The Computer Museum's 5th Annual Computer Bowl rapidly approaches. The contestants are training hard. Sponsors are lining up. Enthusiasm is at a fever pitch. The whole world is watching. Don't wait another nanosecond. Make your ticket reservations now. The Computer Bowl is filling up. And if it's anything like last year, The Computer Bowl will soon runneth over.

The Computer Museum's 1993 Computer Bowl Presented By: The Association for Computing Machinery (ACM); Date: May 14, 1993; Place: The San Jose Convention and Cultural Facilities, San Jose, California; Satellite broadcast to: The Computer Museum, Boston, Massachusetts.

EAST COAST TEAM: Mitchell E. Kertzman, Captain, Powersoft Corporation; John F. Burton, LEGENT Corporation; Neil J. Colvin, Phoenix Technologies Ltd.; Alain J. Hanover, Viewlogic Systems, Inc.; Patricia B. Seybold, Patricia Seybold Group. WEST COAST TEAM: Harry J. Saal, Captain, Network General Corporation; Jean-Louis Gassée, Be Incorporated; Jerry Kaplan, GO Corporation; Michael A. McConnell, SuperMac, Inc.; Lisa G. Thorell, Dataquest Incorporated. "THE EXAMINER," Bill Gates, Microsoft Corporation. JUDGES: Dr. David L. Nelson, Fluent, Inc.; John F. Shoch, Asset Management Company.

FOUNDERS: Pat Collins Nelson and Dr. David L. Nelson. UNDERWRITERS: Apple Computer, Inc. OFFICIAL SPONSORS: Bank of Boston, The Bank; BASF Information Systems, The Diskette; Intel Corporation, The Microprocessor; LEGENT Corporation, The Enterprise Systems Management Provider; MasPar Computer Corporation, The Massively Parallel Computing Company; Merrill, Pickard, Anderson & Eyre, The Venture Capital Firm; Network General Corporation, The Network Analyzer; Price Waterhouse, The Accounting Firm; Robertson, Stephens & Company, The Investment Bank; Stratus Computer, Inc., The Transaction Processor; Viewlogic Systems, Inc., The Official Electronic Design Automation Company; Visix Software Inc., The High Performance Workstation Software Company; Wellfleet Communications, Inc., The Internetworking Company. The Computer Bowl is broadcast on the PBS series, "Computer Chronicles," hosted by Stewart Cheifet. The Computer Bowl is a project to benefit the educational programs of The Computer Museum, 300 Congress Street, Boston, MA 02210. For tickets and sponsorship information (617) 426-2800 ext. 399.



ment of the city to try and help them privatize their vast landholdings and buildings," he explains, "starting with hotels to attract businesspeople, then moving on to commercial and industrial ventures. Then, with these revenues, they hope to improve their infrastructure: roads, rail, port and communications—especially communications."

All this travel exacts a toll—long absences from home and a pending divorce are the most significant consequences—but it is a cost that might well have been exacted by a demanding job had Leinberger stayed in Los Angeles. And there is a growing likelihood that as more companies and government entities are dragged kicking and screaming into the age of information technology, the number of miles logged by executives like Leinberger will go down considerably.

THINGS ARE changing in Santa Fe, too, as the town becomes something of a virtual headquarters for workers spending longer periods away from their centers of operation. The result is a backlash of sorts against interloping Texans, Manhattanites and Californians. A battle between prodevelopment forces allied with the mayor and a no-growth coalition arrayed around the city commissioners has recently turned into an ugly spat replete with flaring tempers and public name-calling. For the moment, permission for water rights are hard to come by; hence, new building permits can be meaningless.

But efforts to pull up the drawbridge may already be too late. Santa Fe, a town of about 63,000 with a history that stretches back to the 16th century, now has more square footage of specialty retail space than West Los Angeles, Georgetown or Cambridge, Mass. The town is also a major center of art sales in the United States. And there are dozens of restaurants, many of which serve a self-described nouvelle New Mexican cuisine: jalapeño Caesar salad, grilled tuna on a bed of beans, chile-derived soups and so on. Santa Fe even has two symphony orchestras and a world-class opera, but there are precious few food stores and hardly any shopping centers for the hoi polloi.

Santa Fe is saved from the single-industry, tourist-addicted fate of Carmel, Calif., and Aspen, Colo., by the presence

of the state capital, located there since the 1600s. Add to this the intellectual ferment of the staff of the Los Alamos National Laboratory (an hour's drive away), 2,000 of whom live and wield their economic power in Santa Fe County. Stir in the artists and writers, the pueblo Indians and the landed Hispanic community, and the blending of cultures and characters is truly cosmopolitan.

"I'm an urban person," Leinberger claims. "I love the crazy mix of people. The only other places I might choose to live would be Paris or the Upper West Side of New York City. Santa Fe is the most sophisticated little town in the United States."

Sophisticated, yes, but a decidedly little town nevertheless. Just beyond the window by Leinberger's work table, a

dog chases roadrunners through the scrub (presumably, Fido doesn't watch Saturday morning cartoons). A pair of horses—a dappled gray and a palomino—glide around a corral, their breath white in the morning chill. Once upon a time, gringos used to ride their horses up the river through Indian land to the national forests. Now a wire fence is stretched across the stream at the reservation's boundary.

This nearly invisible fence might just cut you in half if you were going full tilt. But of all the boundaries that modern life throws up, it's one of the few that Chris Leinberger hasn't managed to leap.

Jeffrey Young is a contributing editor to Forbes.

A Breaking Away Checklist

Many factors contribute to the quality of life in a place—and a large number of them are intangible, personal and unknowable. Some, however, can be reflected in a statistical snapshot. Herewith, a highly personal ASAP list of points of comparison. If you decide to chuck it all and go somewhere new, send us a postcard. But don't complain if you haven't heard a string quartet for over a year or think *The Crying Game* is Vanna White's new television show.

Know before you go . . .

- Number of movie theaters (and screens)
- Cellular phone coverage
- Miles to major airport
- Number of airlines serving the airport
- Daily connecting flights to major cities
- Number of restaurants (slow food)
- Cost of BMW/Mercedes/Lexus (or whatever) service per hour
- Classical music ensembles
- Number of live music clubs
- Cable TV service
- Average salary of administrative assistant
- Taxes: business/property/personal
- Real estate prices/average size of house and lot
- Median income
- Median age
- Average annual utility costs
- Lease rates: industrial/commercial
- Number of building permits issued in the previous year
- Number of books in the public library
- Number of universities and colleges
- Percentage of college graduates in population
- Shopping facilities
- Ethnic mix
- Weather
- Distance from snow, surf, trout streams, etc.

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Obtain the Property Report required by Federal law and read it before signing anything. No Federal agency has judged the merits or value, if any, of this property. Equal Credit and Housing Opportunity. A statement and offering statement has been filed with the Secretary of State of the State of New York. The filing does not constitute approval of the sale or lease or offer for sale or lease by the Secretary of State or that the Secretary of State has in any way passed upon the merits of such offering. A copy of the offering statement is available, upon request, from Sangre de Cristo Ranches, NYA86-153. A statement of Record filed with the New Jersey Real Estate Commission permits this property to be offered to New Jersey residents, but does not pass upon its merits or value. Obtain the New Jersey Public Offering Statement and read it before signing anything. NJA #60686004 CO; Florida AD 20537

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